INDIAN BUSINESS

Vol. II

Commercial Organisation in India.

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By the same Author

INTRODUCTION TO MONEY

INTRODUCTION TO BANKING

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PREFACE

MORE than a year ago the first volume to this work was published. As originally planned in 1946, the entire research on Indian business was distributed into three volumes, the first being concerned with the Organisation and Finance of Business, the second with Commercial Organisation in India and the third with Industrial Efficiency in India. But various factors have slowed down the progress of publication. Hence it has been decided to split up the third volume from the series and publish it separately under the title "Industrial Efficiency in India". The whole work is organic, no doubt; but this splitting up will not in any way affect the link.

The present volume is concerned with Commercial Organisation in India. Naturally trade has come in for discussion and has been followed by discussions on banking, insurance and transport which, taken together, constitute the wheels of commerce. In the end a chapter has been added on the relation of the state to modern business. There the discussion is controversial; but every attempt has been made to discard the influence of both money-politics and party-politics and to take a scientific view. The efficacy of state intervention under modern conditions has been considered first; but it has been found that under Indian conditions, with existing efficiency, state assistance or state co-operation would be more helpful than state intervention or even outright nationalisation. It is true that unrestricted capitalism means exploitation; but then I cannot persuade myself to agree with those who believe that state intervention is synonym for socialism and hence a panacea for all evils. If the state is unequipped, state intervention would be more dangerous than beneficial, having none to check it except widespread discontent, growth of hostile ideologies and mass uprisings. In fact, hostile ideologies thrive upon the

poverty of the masses and no state, however mighty, can suppress them by arms. This lesson seems to have escaped the notice of most of the newly-formed states of the East. This is one process. But in the domain of economic organism, the end of the process of capitalistic development is the appearance of that state of affairs in each economy and in every society where "all the springs of collective wealth flow with abundance." For, "only then can the limited horizon of bourgeois right be left behind entirely." But till that stage is reached, no amount of socialism or nationalisation would solve the ills of existing system.

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This work is primarily intended for students preparing for business and industrial organisation in Indian Universities. It is a matter of great surprise that even after so many years of commerce education in this country we do not have any book discussing the peculiarities of Indian business. Wherever they exist they are a faithful or unfaithful copy of text books on the subject in Western countries with the consequence that the Indian readers do not derive any benefit from them and foreign readers seek in vain the peculiarities of Indian business in these works. They are books for commerce and not on commerce.

The system of commerce teaching in Indian Universities is almost hopeless without exception and it seems as if it is nobody's concern to improve this. I have often heard business people criticising, even blaming, our commerce graduates for their lack of knowledge of the business world, and worse still, their lack of interest in business, and they are justified. We find very few commerce graduates in our country who read the financial press regularly. What to speak of having direct contact with business, many of them do not even know such simple things as endorsement or crossing of a cheque when they are called upon to do so. So when a man of the business world claims that he can give more knowledge to a young man in a week's time than the whole stock of knowledge he acquires in four years, one cannot be proud of the educational arrangements as prevalent at present.

If education in Commerce is to be truly imparted, then three things are essential, *viz.*, first, a thorough overhauling of the Commerce syllabus; second, a thorough change in the teaching personnel, and the creation of a separate faculty in Commerce; and third, regular contact with practical business. The syllabus of Commerce as it stands at present is more allied to Static Economics and consequently most unrealistic. Commerce education must include, in its scope, apart from Commercial Geography, Commercial Law, Accountancy and Auditing, General Principles of Economics, a lot of other subjects connected with Business Organisation, *viz.*, Market Research, Advertising and Salesmanship, etc., and Factory organisation, *viz.*, Factory Planning, Production Planning and Progress, Labour Organisation and Welfare, Stores Control, Cost Accounting and Control, Time and Motion Study, Fatigue Research, Vocational Tests, Industrial Psychology, Wages and Efficiency Systems, Budgetary Control, etc., etc. These subjects may conveniently be split up for the intermediate, degree and post-graduate courses. True, this may hamper the mass production of commerce graduates; but this will make Commerce course more useful for practical business.

If our Commerce Syllabus is defective, greater defect exists in our teaching personnel. It is true that teachers in no country are businessmen, nor even businessmen teachers. But then a business teacher must be something different from a teacher of literature or philosophy. He must have practical bent of mind, and not a fossilised soul, and must have some connection with business which may help him to give a realistic interpretation of the general principles. In fact, even a stereotyped syllabus may acquire life in the hands of an efficient teacher. In this respect all Indian Universities are deficient without exception and education even to-day seems to be the least cared-for and most neglected subject.

Commerce education must have regular contacts with business in order that the former may acquire realistic touches. Some institutions have at times organised tours to commercial or industrial centres; but they are more in the nature of excursions and less or none in that of Commerce

education. Many business people in this part as also in the west coast of India have asked as to how much benefit can a student derive from an hour's visit to a factory in the course of two or four years of his career. At times such tours are regarded as a sort of nuisance to the proper working of the factory or the office and yet we have the false gratification that we have shown a factory to our students. And the mass product that we are turning out cannot physically be accommodated in business even for education, what to speak of a situation, under present conditions. To be really useful there should be definite checks on the number of students so that it may not exceed the marketing optimum and bring about a depression in the educated-labour market.

All through this work, attempt has been made to make this as much useful to the Indian students of business and industrial organisation, though of course it is expected to be of interest even to the business public and lay men, and if this attempt induces others to produce books on Indian conditions instead of merely copying them from elsewhere and brings our education stalwarts to consciousness regarding the thorough overhauling of the Commerce courses, my humble labour will be more than amply rewarded.

123, *Chittaranjan Avenue,*
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31*st March*, 1949.

K. L.

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Part IV—Transport

INTRODUCTION

What is Commerce?

In the first volume, the word 'Business' has been defined in a broad and a narrow sense. Broadly speaking, it includes not only the productive and distributive aspects but also the various aids to business. In fact, wherever man earns his livelihood in an independent and honest manner, we call it business irrespective of the nature of work. We have done this with the object of looking at the thing from a broad angle of vision. Regarded in its narrow connotation, business means trade proper, the purchase and sale aspects of the economic activity, and not its productive aspect, nor again the various aids given to it. Thus conceived, business is the work of the merchant—of the wholesaler and retailer—who works as a link between the producer on the one hand, and the consumer on the other. The word 'Commerce', however, means business proper plus various aids to business and has nothing to do with the productive aspect of the economy.

The different aspects of business in comprehensive sense have developed through different stages of the progress of mankind. It is of course true that commerce had a crude beginning in very early days when men felt the need of exchange, no matter whatever medium they might use for the purpose. As soon as human demand expanded, or as soon as the individual or group of human beings failed to satisfy their wants with what they had and tried to get more, exchange had to be introduced. But then production, in such an economy, was limited not only in its organisation but also as to the extent of the market. A broad division of labour took place. Each family in a locality specialised in the production of a particular commodity and exchanged its products with products of other families by barter. Not to speak of this type of commerce being prevalent in early days of civilisation, even to this day in some interior parts of our country we

find the same self-sufficiency and the same type of commercial activity, although the growing influences of urban life are fast removing this practice of the past. This earliest stage of production is based on the exploitation of labour of the members of the family.

Commercial transactions between different regions came at a much later date. This was in part due to the extension of production and in part to the opening up of the means of communication, the removal of geographical barriers. In fact, the history of commerce from early days till recent times is characterised by these two efforts, *viz.*, extension of production and disposal of surplus products in outside markets. But upto the coming of the commercial revolution, we fail to notice commercial activity developed in all its manifold aspects. Banking, insurance, transport, intermediary agencies and many other aids to business were yet to come. All these are the results of the commercial revolution and have grown only during the last one hundred and fifty years. Therefore, although commerce had a beginning in the earliest stages of civilisation, its fullest development is only a recent happening.

Another important fact about commerce is that in the history of civilisation, the commercial importance of different regions has been changing from time to time. Since civilisation dawned in the East, the peoples of the East, *viz.*, the Indians, the Phœnicians, the Egyptians and possibly under their influence or due to the geographical influences, the Eastern part of Europe, *viz.*, Greece, developed commercially. The complete account of the state of commerce in this early period in India is not yet available. But there is not the slightest doubt that India had extensive trade connection even as early as 3000 B.C., when the greater part of the European continent was passing through dark days. This is supported by the recent archaeological discoveries in the Punjab and Sind. So far as European commerce is concerned, it cannot go back before 1000 B. C., when Corinth established itself as a leading commercial centre in Greece. The close contact of Greece with Persia, although of a hostile nature, had been the most important factor in the development of Corinth

and subsequently Athens, into a leading commercial centre of Europe. The commercial importance of the East continued for very long period and the superiority in this respect has gone to the Europeans only from the beginning of the last century.

We have already mentioned that India had developed her trade in the earliest days and the researches of Indian scholars have proved that "ancient Indian literature...... abounds with innumerable references to sea-voyages and sea-borne trade and the constant use of the ocean as the great highway of international commerce". Of course, international commerce has to be understood in a limited sense, *viz.*, commerce between those states whose civilisation was developed. Thus viewed, it refers to trade with those Empires which flourished in Asia Minor, Mesopotamia, Syria, Persia and Arabia, and also in China. "The inference is almost forced on us that the trade of India with the people of these Empires was international in the sense in which trade was understood in those days. It was in reality an exchange of Indian products with the great and renowned cities of ancient times situated in what we now geographically call Asiatic Turkey and Arabia."

It is to be noted that this trade was carried on both by land and sea routes. The land route was followed in the case of trade with China and Persia, of which we have got so many references. But the greatest volume of India's "international commerce" was carried on by sea. This was quite natural in view of the fact that India had a wide coast line washed by the Arabian Sea, the Bay of Bengal and the Indian Ocean, and along this coastline she had developed a number of ports which all the more facilitated their commercial enterprise. It is rightly believed that there had been an extensive "maritime trade from Cambay and Broach as far as the Persian Gulf on the one side and from the Malabar Coast and Ceylon to Aden and Mokha on the other".

Another peculiarity of Indian trade, as also of trade of any other country during this period, was that it was never carried on directly but through a large number of agencies, the principal reason being the lack of effective

means of communication covering long distances. The products of one country passed to the neighbouring country and in this way they reached wide markets, at times going as far as Greece and Rome. It should not, however, be taken to mean that there was no direct trade connections between India and her distant markets. But in view of the difficulties of transport, the direct connections, so far as they existed, were very slender and the greater amount of trade was carried on by the intermediaries, with the result that the prosperity of one country led automatically to the prosperity of the neighbouring countries, which often played the role of entrepots for the products of the principal country. Thus in Indian trade with the West, a large number of merchants from countries like Iran and Arabia had specialised and acquired a monopolistic position.

In the neighbouring countries, *viz.*, the East Indies, Malaya and as far as Indo-China, the Indians had not only established trade connections but also settlements, the traces of which are to be found even to this day. These Indians not only carried with them their own civilisation and culture, but also their own products, and popularised their uses in these lands.

Be it noted that the staples of Indian trade of the time were mostly manufactured products from her cottages, species and articles of luxury. During the days of the Roman Empire, "there was no limit to the costly luxuries in which the patrician class, male and female, indulged by the enormous purchases of cinnamon and other well-known Indian commodities, including silks and indigenous calicoes". The development of Indian export trade had gone so far that every year she had an enormous favourable trade balance and she came to be regarded as the "sink of precious metals".

Commercial Development since the 16th Century

In the previous section we have noted the nature and peculiarities of Indian commercial activity in early days. To go further would be outside the scope of the present volume. But so far as the commercial develop-

ment since the 16th century is concerned, it constitutes a subject of greater importance for our purpose because it enables us to obtain a comparative estimate of our commercial situation before the coming of the British Rule and after its establishment. During the period under review, India had a flourishing trade, both internal and external, as also coastwise. Thus when the European travellers and merchants came to the Mughal Court, and obtained information about India, they were surprised at the volume of commercial activity inside the country. This commercial activity was backed by considerable development of industries and *Karkhanas* in different parts of the country and was based on sound trade practices, such as, the use of hundis for the remittance of money from one part of the country to another, sometime even outside. In the internal trade of India at this time, a large number of banks and merchants operated. They worked as middlemen, as many of them do even now, offering advances to the operatives and had thus command over the finished products both for internal and external commerce.

The principal commodities in inland commerce consisted of salt, indigo, textiles, sugar, agricultural produce like rice and wheat. These commodities were demanded in some parts of India where people had taken to other occupations. Thus, for example, Gujerat being a land of seafaring people, it had not been self-supporting and imported foodgrains from different parts of India, including the Deccan, Malwa and. Rajputana. Even as early as this period, Ceylon had been dependent, as it is even to-day, on the main land of India for the supply of rice, while Rajputana had been an important source of supply of salt for some parts of India.

This internal trade activity led to the commercial importance of many centres in different parts of this country. Some of these trade centres, again, acted as entrepots for trade with more distant parts, and even with countries outside the Indian frontier. Among such trade centres, we may mention Patna and Benares through which the products of Bengal poured into Northern India, Punjab and even outside countries. Agra was another such important

centre which connected the trade of northern India with the Deccan. According to the account of Pelsaert, "all goods must pass this way (*i.e.*, through Agra), as from Gujerat, Tatta; from Kabul, Kandahar or Multan with the Deccan; from the Deccan or Burhanpur to those places, or to Lahore; and from Bengal and the whole East country; there are no practicable alternative routes and the roads carry indescribable quantities of merchandise, especially cotton goods". Among other trade centres in the northern India, mention may be made of Lahore, Multan and Lucknow. Agra was also an important indigo producing district at that time and hence cotton cloths from various parts of the country were sent to this place, and dyed there before they were exported outside. Ahmedabad, which is an important centre of cotton textile industry even to this day, had then acquired fame for dyeing of cotton cloth. It was also another important entrepot for the products of inland centres for purposes of export, in view of its connection with the ports on the west coast of India. On the western seaboard, Surat was the most important trade centre and it received goods from as far as Bengal and the Punjab for purposes of export. Masulipatam had been the Surat of the eastern seaboard and maintained trade connections with Arakan, Malacca and the Indies.

Because of the vast dimension of the country and the specialisation or rather the suitability of different regions for different products, and also because of the extensive coastline, the coastal trade of India had assumed great importance. This trade was carried on both sides of India and thus became very important. But from the seventeenth century onwards, this trade, as also the oceanic trade of India carried on by Indian vessels, was disturbed and ultimately destroyed by the piracy of the Portuguese, the Dutch and the English on the sea. The Portuguese at times worked both as traders and as pirates on the sea and whenever they found any ship of the Arabs plying on the sea they pounced upon it like hawks. Moreland writing on this period refers to pirates in the western waters of India apparently meaning the Arabs who had lost their

trade to the Portuguese. But the Europeans were not free from this temptation. The latter were in a position to do so in view of the fact that their traffic was conducted under convoy and so both trade and piracy could be carried on simultaneously. Regarding this convoy system, Moreland writes, "Each year when the monsoon weakened, the Portuguese sent out to the north and to the South of Goa fleets consisting of from ten to twenty armed "frigates" or rowing boats, usually with one or two galleys in support; these fleets patrolled the coasts, attacked the pirates in their harbours and from time to time escorted convoys of merchants' boats between Cochin and Goa, or between Goa and the Cambay ports. Merchants waited for the opportunity of escort and so we find that practically the entire season's trade between Cambay, Goa and intermediate ports was conducted in laige convoys which sailed two or three times in the season between September and May.........The protection of these convoys was by no means complete and losses were occasionally heavy." This gives an idea of the difficulty through which the traders had to carry on trade. At times this obstruction had gone to extremes and the piracy of the Europeans in the Arabian sea was responsible for the ruin of many seaports in Western India, such as Dabol, Goa and Cambay. In the words of Palsaert, "All merchants, from whatever country they come, complain most bitterly. Portuguese, Moslem and Hindus, all concur in putting the blame for state of things entirely on the English and on us, saying that we are the scourges of the sea and of their prosperity."

If the trade of India was disturbed in the Arabian sea as early as seventeenth century, the condition was not better in the east. The whole of the Bay of Bengal was monopolised, first by the Portuguese, and then by the Dutch, who made a regular practice of catching Indian vessels. The pirates used to maintain their strongholds at the mouths of the rivers or at convenient centres and used to carry on their operations. The brutality of these pirates knew no bounds and no language is enough to express them, living, as they did, "in no form of subjection to God or man". The object of all these pirates was to stop

the Indian trade with the Indian Archipelago. In subsequent years when the English came, they also pursued the same policy. The result was that in many cases Indian trade had to be altogether stopped or the trade route had to be changed. The internal political conditions of that time were not at all favourable. The lack of a strong centralised administration in the declining days of the Mughal Empire, as also the weakness of the Mughal Emperors at sea, had been the reason for the predominance of piracy and resulted in the decline not only of Indian trade but also of the production of those commodities which had at one time constituted the principal export items of this country.

In the foreign trade of India, even in the middle ages, the Arab merchants had come to predominate. They carried the Indian products, as also the products from other countries of the Far East, including Japan, to the then civilised part of the world. The rise of the Ottoman Empire at the beginning of the 16th century as a result of which the Turks had established their suzerainty on the Eastern Mediterranean, "led to the strangulation of the Indo-European trade". In fact, the increasing number of intermediaries resulted in a high price for the products of the East in the European market and the profitable character of the trade in these products attracted the attention of the Europeans. But the Turks were formidable both by land and sea and therefore the shortest route to Europe *via* Mocha (near Aden), the Red Sea and Tor (port near Suez) could not be availed of by the Europeans. Their first efforts were therefore directed to the finding of a separate trade route, however lengthy and troublesome. The commercial importance of India had gone so far that the countries of the East were at times not mentioned by their names but as Farther India. As one writer observes, "The history of Modern Europe and emphatically of England is the history of the quest of the aromatic gum resins and balsams and condiments and spices in India, Farther India and Indian Archipelago." The earliest comers had been the Portuguese who had to encounter opposition, at times severe, from the Arab

merchants, who had upto this time a monopoly of Indian and Farther Indian trade. This opposition however did not succeed and the Portuguese enterprise resulted in the establishment of settlements in different important points beginning from China right upto Ormuz in the Persian Gulf. In the seventeenth century, however, the Portuguese had to make room for another European nation, the Dutch, which had grown as a seafaring nation and challenged the supremacy of the former.

We have already said that Indian trade was carried on both by land and sea routes. During the period of which we are speaking, there were in all three routes on land frontier one connecting India with China and the other two on the western border. The land route to China was not however in regular use. The other two—one from Multan to Kandahar and the other from Lahore to Kabul—were in greater use. The former of these two connected India with Persia while the latter with Western China and Europe. Although the volume of trade by land was not negligible either from the standpoint of existing conditions or in comparison to the volume of trade by land now-a-days, yet in comparison to the seaborne trade of India at this time, the former one was of little importance.

The enormity of the Indian trade of this period is revealed from the number of ports that flourished along the coastline of India. It is extremely painful to state that while the European countries, because of the turning of the scale, developed commercially, a period of darkness fell upon India from the date of the coming of the Europeans to this country. This is clearly revealed in the fact that not only commercial activity but also the number of ports had declined since then, so much so that with the exception of Calcutta, Bombay, Madras and Karachi, there is hardly any other port in India today where commercial activity is in any sense considerable. Not only that; a large number of Indian ports have been starved out because of the decline of commercial activity. The most important port in the west coast of India, *viz.*, Surat, is only a skeleton of its former self. Even in 1801 when the East India Company had its establishments here, the

trade of this port exceeded £1 million. "A hundred years later this total had contracted to £200,000 and in the last fifteen years the decrease has been even more marked." This is only one of so many instances in which our ports had declined.

In the period under consideration, the commercial activity was enough to provide work to a large number of ports. From the north-western corner of the country to the north-eastern, a large number of ports had been working, many of which are today of historical interest. Even a critical observer of the Indian economy like Moreland had to take into account the conditions of ports of India during this period. The most important of these ports were however on the west coast. Beginning with Lahari Bandar in the north west, we had the group of Cambay ports, of which Surat, Broach and Cambay were the most important. South of the Cambay Bay, we had three important ports, Bassein, Chaul and Dabul. In farther south we had Goa and Bhatkal. South of Goa, and between Mangalore and Cape Comorin, we had a number of ports of which Culicut and Cochin had distinguished themselves. These Malabar ports were noted for their entrepot trade activity in particular. In the east also, between Masulipatam and Chittagong, a number of ports had developed, the most important of these being those in Bengal.

The importance of the Asiatic trade was so much that even outside the Indian coastline, a number of ports had developed, both in the east and in the west. In the east, in the kingdom of Pegu, there were three important ports, two of which were situated at the mouth of the Pegu and the Salween respectively and one was somewhere near present Bassein. In farther south there was Malacca, the entrepot between India and lands beyond Malacca. According to the estimate of some contemporary writers, it was the richest trading port and had "the most extensive shipping and traffic that exists in the whole world". The peculiarity of the trade in the East was that it was not in the hands of the natives of these lands but monopolised by the Moslems and the Portuguese, the latter having subse-

quently been so much predominant that they occupied Malacca in 1511. As in the East, so in the West, the trade was a monopoly of the Moslems and although in subsequent years, the Portuguese succeeded in establishing foothold in certain important places, including Aden, they could not continue long and the Arabian coast came to be dominated by the Turks. The power of the Turks had gone so far that the Indian vessels did not proceed as far as the Gulf of Suez but handed over their cargoes at some port to the merchants coming from the north, both by land and by sea, whence they were taken to the Mediterranean coast and distributed in different parts of Europe.

A few words may now be said about the principal commodities of export and import, the volume of Indian trade and its direction. Among the commodities exported, mention may be made of all sorts of luxury goods produced in this country, *viz.*, cotton goods, silk fabrics, cheap calicoes, dye-stuffs, ivory, perfumes, spices, etc. Of all these the most important single item in export trade was, apart from luxury goods, represented by cotton manufactures, which were in high demand in all the Eastern Countries as far as Japan. In the west of course, the market for cotton manufactures was limited; but even there in some parts of Africa, including Egypt, and also in Arabia, they had, on the whole, a good market. The then civilised part of the world in the west including Turkey and Muscovy demanded Indian silk fabrics and calicoes as also the printed cloth goods. It will thus be seen that the Indian exports consisted mainly of manufactured products. But agriculture was not neglected for that matter. India was not only self-sufficient as regards the supply of agricultural goods, but used to supply some of the eastern countries, *e.g.*, Indian Archipelago, Cochin and Coromandel, the cheapness of the Indian products being very helpful for it. Among these Indian products, the most important were rice and wheat, sugar, butter and oil. Among the imports the biggest item consisted of gold and silver. It is wellknown that from old days India had an ill-reputation of being the sink of precious metals, which was

due to her favourable trade balance. But this does not exhaust the list of her important items. India being one of the richest countries of the world, and being a seat of princes and nobles, who were noted in history for their luxury, she used to import many luxury goods, such as velvets, brocades, perfumes, drugs, spices, silk, etc., as also European wines, China products and slaves from Africa. Besides, India imported a number of horses every year. In the north although the local supply was available, they were imported not for the use as a means of conveyance, but for luxury and displays. In the south, however, the local supply being meagre, their import was important not only for the maintenance of trade connections but also for strategical reasons of preserving the security of a large number of states that had existed in this part of the country. India also imported industrial materials which were not available inside or whose supply was meagre in comparison to the total demand, *viz.*, lead, zinc, quicksilver, copper, tin, etc. Regarding the volume of trade, it is very difficult to say anything conclusively. But Moreland writes as follows: "We...reach a total of 27,000 tuns for the trade of India with the countries lying to the East; I think this is an overestimate, but in any case, taking East and West together, and reckoning the commerce with the islands on both sides of the peninsula, the total volume of Indian foreign trade was probably less than 60,000 tuns of the period, which are, speaking very roughly, equivalent to from 24,000 to 36,000 net tons of the present day."

Features of Indian Mercantilism

This extensive Indian trade gave rise to mercantilism which, however, was entirely different from western mercantilism. While Western Mercantilism is a particular phase in the development of their commerce, Indian Mercantilism was a permanent feature, being supported throughout her history by a favourable trade balance. The present debit items in her balance of payment, *viz.*, interest on loans raised abroad, remittances by Europeans

posted in India, profits of foreign banks, insurance and shipping companies, etc. etc. were conspicuous by their absence. Indian mercantilism was backed by a permanently favourable trade balance and Indian trade was in the hands of the Indians, financed by Indian bankers, and carried on in Indian vessels, though not upto destination in all cases, yet outside Indian frontiers in order to be handed over to other merchants who carried them to distant markets. Indian trade was not the result of the trade agreements, as was the case in the west (cf. Methuen Treaty of 1702 between England and Portugal); Indian shipping did not originate and stabilise its position by Navigation Laws. It was the natural seperiority that had won the field. It is of course true that the Mughal Emperors used to encourage the export of luxuries and manufactured products and discourage the export of precious metals. But even here the superiority of the Indian product and the demand for them in outside market had been the main criteria. There had hardly been any necessity for the discouragement or prohibition of importation of commodities, except precious metals, as it had been in the western countries, of which the most important illustration is the Calico Act of 1721 in Britain which prohibited the use of painted, flowered or dyed calicoes. Another feature of western mercantilism had been that the increasing supply of precious metals in those countries had been converted into money. Efforts were made thereby to maintain prosperous conditions inside the country. In our case, although gold and silver were used for coinage, a considerable portion of the imported stuff was however hoarded or used for luxury purposes, in making displays, etc. It is interesting to note that these precious metals poured into India not only from the neighbouring countries, but from distant regions, as far as Japan, and even beyond Mexico. The isolation of the East, as pointed out by the western historians, is, therefore, a myth. That the Indian mercantilism was the product of the natural superiority of the Indian products and of the demand for them in market far away and not due to the artificial stimulus created by the state or by the monetary expansion, is best testified by the fact that even

when this trade had passed into the hands of the foreigners, even when there was no strong, centralised administration in this country, India had been able to maintain her mercantilism. Thus the East India Company which had been carrying on trade in Indian manufactured products was responsible for exporting huge treasures to India in payment for Indian products. With the expansion of the trade of the company, the export of treasures to India rapidly increased. According to some estimates, this treasure amounted to £22,000 annually at the beginning of the 17th century, but rose upto £52,000 in 1616 and by the end of the century, it reached the peak of about £800,000 annually. In the 18th century, however, various circumstances engendered a phase of decline, but even then, during 1751-1810, the annual average had been £190,664. Mercantilism being thus a natural product, we do not find any group of writers in this country urging upon the administration to help Indian trade in these matters, as is the case in western countries. In the history of economic thought in the west, the line of thinking pursued by the mercantilist writers occupies a distinct place, but not so in this country. It was not the practical result of the theoretical doctrines influencing the action of the state; it was entirely practical.

Commercial Organisation

As at present, so also during the period under consideration, commerce was the monopoly of a few castes or races. At present, the trade in India is a monopoly of the Marwaris, the Gujeratis, and the Moslems in some parts and the Parsis. Though in recent years other communities are making certain headway, yet the monopolistic position of the above communities is by no means as yet threatened. During the period under review, three communities seem to have been prominent—the Moslems of the seaboard, the Banias of Gujerat and the Chettis of the Coromandel coast. Apart from these a few others, including outsiders, like the Persians across land frontier and Europeans, participated in Indian trade. Apparently,

therefore, the Indian trade, and for that matter, the Indian economy had never been a closed economy.

The Indian commercial organisation is a result of evolution and has hardly ever been backed by statutory measures. That is why even to this day it has been able to maintain its own peculiar features. The wide distribution of the members of a few business communities as also the high morale of Indian business resulted in the development of a system which facilitated exchange and remittances. The hundis which nowadays are being gradually ousted had been in extensive use for remittance purposes not only between distant centres inside the country but even with outside countries, like Persia. The arrangement was like this. When merchants went to Persia to make purchases, they were provided with letters of credit which enabled them to draw bills on any Indian centre which had been acting as entrepot, *e.g.*, Agra or Lahore; they could make their purchases, the letter of credit being an authority given to these merchants to issue such bills. This obviated the necessity of carrying money over long distances. The same practice was prevalent as between the different inland trade centres. Thus the important trade centres not only served the purpose of distributing goods over wide areas but also of clearance of payments. In other words, they served as clearing houses where the bills to, and from, different centres were exchanged for one another, and in this way the transactions were settled. Naturally, therefore, the trade must have been very much extensive so as to provide sufficient number of bills for these clearing centres. The clearance charges though described* by Tavernier as high, do not seem to be so in view of the enormous amount of risk involved in carrying cash in those days when means of communication were not at all developed. "The charges were......'high enough', ranging from 1 to 1½ p.c. at Ahmedabad to 6 p.c. at Benares and 10 p.c. at Dacca, but......the risk was substantial, as the bill would not be met if the goods were stolen in transit: the charges were therefore inclusive of the risk of transport as well as of the current rate of interest." Tavernier adds that the rate might rise by 1 or 2 p.c. when local

chiefs were interfering with commerce and endeavouring to force it into particular routes for the sake of the transit dues. He mentions further that at Surat advances could be obtained in the same way on goods despatched to Ormuz, Mocha, Bantam and even the Philippine Islands; in this case the rates charged were much higher (16 to 22 p.c. for Ormuz, and still more in the case of the more distant ports), but again they included insurance against shipwreck and piracy, and these risks were ordinarily very great. "The existence of this system of credit extending over a wide area and quite independent of political limits shows a high level of commercial morality."

The Portuguese and the Dutch, however, developed their own systems for obviating the need for the use of money. For their trade with the Archipelago in spices, they had to make payment in precious metals. So they began to explore the possibilities of developing a trade which was based more or less on barter. From China and other eastern countries, they imported silk, tin, and jewellery to India. From India, in exchange, they obtained cloth and silk, and spices from Malacca, and sold them in different parts of the Muslim world. From the Muslim world, as also from Europe, they imported various industrial metals and luxury goods, including horses from Persia and sold them in the Eastern markets. The Dutch also had developed similar trade practices by exchanging the products of one country with that of another. "A net work of trade relations thus covered the entire known world of the 17th century from China, Japan, the Spices Islands to Bengal, Coromandel, Malabar and Gujerat and from India to Aleppo and Constantinople* and Alexandria and to Europe."

This extensive trade operation, as already noted, was based on customs and practices which were universally recognised and accepted in this country. This however should not be taken to mean uniformity of practice in all parts; but in business between different parts, they had come to develop certain rules which were strictly observed. There were certain laws no doubt; but a comprehensive company law or partnership act was unthinkable. What-

ever might be the nature of the law, its actual application depended on the officers who were in charge of the particular parts of the country. And so far as the foreigners were concerned, it is wellknown that before they could trade, they had to obtain such rights from the rulers. The rights given, however, were not the same, but varied according to the international position of the state to which the merchants belonged. On the coast, however, the control of the administration being weak, or almost negligible, we have seen how the foreigners carried on piracy in complete defiance of the law or authority of the land.

Commercial Decline or Revolution

The story of the commercial decline of India is closely associated with the coming of the Europeans. We have already made passing references as to how the Europeans had been obstructing the commercial activities of the Indian and Moslem merchants in order to divert trade into their monopolistic control. Violence was often resorted to and many cruel acts were often committed, though the treatment given to the traders of other European nations was much lenient. This is the story throughout the 16th century. "Piracy was resorted to, and Indian ships were plundered and sunk in western waters without mercy with this end in view. All Arab and Indian merchants were compelled to obtain passport from the Portuguese at Diu before they were permitted to sail any further towards the East. All ships had to pay, besides Cartaz fees, customs duties at Ormuz, Bassein and Malacca to the Portuguese, who according to Pyrard, searched all the ships to see if any merchandise is being carried that is contrabanded and prohibited by their king." This was only the first stage in the commercial decline of India.

Once the above policy was successful, the Portuguese, and later on the Dutch, resorted to the limiting of the field of activity for the Indian and Arab merchants. They established their settlements not only in India but also in different parts of the East Indies, then known as the Spices Islands, and began to monopolise the trade between

these two regions. In the Archipelago, the Dutch established contacts with local chiefs and obtained monopolistic rights for trading in the principal commodities of the Archipelago. In course of time, these European settlements became a sort of terror to the local rulers and people and the regulations enforced by the Europeans came to be the principal ones. Not only that: the trade of India with the Archipelago in cotton goods was wrested by these Europeans from the Indian and Arab merchants. In course of time, the trade in some Indian products became a virtual monopoly of the Dutch, for which they obtained sanction from local chiefs. When the English came into the scene, the Dutch had been well-established and, by virtue of their monopoly of trade in spices, had been enjoying commercial advantage in all fields. The English did not think it wise to enter into competition with the Dutch; their eyes fell on the internal trade of India, which had begun to be disorganised owing to the Policy of the later Mughals. In the inland trade the Hindu merchants had been predominant; but in later period, partly owing to the imposition of the Jazia, and partly due to the interference by the local chiefs or provincial governors, who began to raise their heads by taking advantage of the weakness of the Central Government, the inland trade had become disorganised, when the English appeared on the scene. The Portuguese and the Dutch had not given much attention in this respect. In the internal trade the English had advantages over the Hindu merchants in so far as they refused to pay Jazia; and although they had to pay some other taxes, the rate was much favourable. Besides, the interference by local chiefs or provincial governors which had disturbed the internal trade was not there for the European traders. The Europeans had advantage in so far as they never paid customs or transit duties which were not only high but frequent and hence made the position of Indian merchants all the more precarious. The above factors thus led to the commercial decline, not only in foreign trade but also in inland trade. The result of this decline has been that even to this day, Indian foreign trade is practically in the hands of non-Indians.

The economic decline of the country was however by no

means complete by the ousting of Indian merchants from the inland and foreign trade of the country; the next blow fell on the industries, the story of which is all the more tragic. These stories of aggression and interference have been revealed by the studies of the Indian scholars and need no recapitulation here. But one point may be mentioned here, *viz.*, that the excessive predominance of middlemen in Indian trade dates from this time. The European merchants engaged contractors for pooling supplies from different sources. At first these contractors held independent status; but later on they preferred to be the hired servants of the company, because thereby they strove to eliminate the risks of business. This new element in the economic organisation of the country became extremely oppressive and continues even to this day as middlemen in Indian handicrafts and agriculture.

The last blow to the Indian economy came from a change in the policy of the British Parliament. Too much is often made of the *laissez faire* tradition of Britain; but any student of Indian economic history knows that the rise of British industrialism is based on the ashes of the Indian economy, which was due to a protectionist policy pursued by Britain. It is well-known that after the closing of the British market to the French products in 1678, India was the only important source of supply. Indian products were not only within the means of different social strata but also met the varied tastes of the people belonging to all ranks. From the beginning of the 18th century, however, the policy changed and laws were passed against Indian products. This policy was maintained for long, first for assisting the development of woollen and silk industries and then for that of cotton. In the words of the great historian Wilson, "Had not such prohibitory duties and decrees existed, the mills of Paisley and Manchester would have been stopped in their outset, and could scarcely have been again set in motion by the power of steam. They were created by the sacrifice of the Indian manufacture. Had India been independent, she would have retaliated, would have imposed prohibitive duties upon British goods and would thus have preserved her own productive industry from annihilation. This act of self-defence was not permitted her...British

goods were forced upon her without paying any duty and the foreign manufacturer employed the arm of political injustice to keep down and ultimately strangle a competitor with whom he could not have contended on equal terms."

Even after the closing of the British market to the Indian goods, India continued to export them, particularly to Europe. But the last blow came from the French Revolution and the Napoleanic Wars. Napoleanic Decrees closed the continental market to outside products. It is interesting that these wars had quite different effects in two different regions of the world. While taking advantage of them, the U. S. A. whose commerce was dislocated launched on a programme of industrialisation in order to march towards self-sufficiency and reduce the country's dependence on European products, quite a different sort of effect was visible in India. The closing of the continental market, side by side with the march of industrial revolution and increasing mechanisation of industrial processes in England, increased the difficulty of Indian industrialism. The cheap products of British industrialism flowed inside India: and there being no government of India's own, Indian industry succumbed. "By 1800 the national industry of India which gave employment to millions of men in their hours spared from agriculture and of women from their household work and which almost held the monopoly of cloth and silk markets in Asia, Africa and Europe was on the road to ruin. Agriculture and industry formerly went hand in hand in considerable parts of India. With the destruction of cotton-and silk-weaving and spinning, India began to lean more heavily on agriculture." The age-long balanced economy of India was for the first time unbalanced and India came to depend more and more on agriculture, which is a gamble in rains.

This is not all. The Navigation Laws in England and other countries produced adverse effect on Indian shipping. The British Parliament of the time enacted legislations not only imposing discriminatory rates of duties against non-British, particularly aiming at Indian ships, but also prohibited the entry of these ships in London harbour which did not contain on board three-fourths of the British crew. Discriminating protection is not something new; but

generally it has meant discrimination against foreign countries, not against one's own. Whatever that may be, the discriminatory policy of the British Parliament led to the ruin of Indian shipping. Thus not only her economy was unbalanced, and she came to be dependent on an uncertain occupation, but henceforth there entered a number of items in her balance of payment which were against the interest of the people of this country. India's prosperity became a matter of the past.

Thus the economic history of India in the 19th century is one of gloom—of darkness. While in Europe one country after another was breaking loose from the fetters of medievalism and was progressing towards political unification and economic independence, the Indian situation was taking an entirely different turn. The political balance had changed. India, the proverbial sink of precious metals, was converted into a country disgorging precious metals and became dependent on western industrialism. The political factors changed her economic destiny. In the race for progress,—advance towards materialism—she lagged, not because the dead-weight of so-called spiritualism held her back—for, even in olden times when spiritualism was most emphasized and '*Artha*' or wealth was regarded as the source of '*Anartha*' or harm India's material prosperity had been the highest in the world—but because the political factors blocked the way for her future progress. The dark age had set in in Indian history.

Commercial Transformation

The period from 1800 to 1870 has been one of great instability in Indian history. The old regime had disappeared definitely; the British Rule had consolidated its position in the country. Side by side with political change, in commercial field also, a revolutionary change was coming. Whether the change was a revolution or evolution, whether it was for good or for evil, let the historians give verdict; but we can only say that this period had witnessed a great commercial transformation in which not only the volume and value but also the specific commodities of trade

and items in balance of payment had changed. India, the one-time sink of precious metals, began to export bullion and import merchandise. In the words of Cotton, "A great change was effected by the Battle of Plassey when the Company acquired control of the revenues of Bengal. Between 1760 and 1809 the total exports of bullion amounted to £14½ millions only, while the value of merchandise shipped to India increased to £48½ millions. The first half of the nineteenth century witnessed a remarkable change in the character of the trade between India and England. Henceforward India began to receive those very commodities as imports which had hitherto bulked so largely in her export trade, *viz.*, cotton manufactures and sugar."

The opening of the Suez Canal, that of Railways inside India and the revolutionary changes in the means of communication between nations totally transformed Indian trade. In the first place, the change in the character of commodities entering into her trade balance, which had been introduced earlier, continued. Indian trade, which had been described as "splendid and trifling" became bulky; henceforth India was not exporting luxury goods or similar products having small size but great value. She began to export raw materials and foodstuff to western countries—commodities having great bulk and little value. The conveyance of bulky goods was facilitated by quicker and cheaper means of communication. The Industrial Revolution in the western countries not only demanded raw materials for their industries but also food for the growing industrial population, because, owing to rural depopulation and increasing rate of multiplication, they had lost their self-sufficiency in matters of foodsupply. Hence there was not only a transformation in the nature of commodities given and taken, but also in the volume of trade, the west demanding more and more raw materials and foodstuffs and sending back more and more finished products. This enormous increase in the volume and value of Indian commerce is the second important feature of commercial transformation. There was also a change in the direction of trade. From the beginning of the 19th century upto 1870 although

the monopoly of the Indian trade by the East India Company was abolished, yet England was the most important in Indian trade. This was partly due to the occupation of the European countries and America with their internal problems and partly due to the predominant position that the Britishers had come to occupy in this country. The British capital as also the British capitalism had flown in the railway enterprise; banking, shipping and insurance had become their virtual monopoly; the British export houses and trade organisations had infiltrated in every field of commercial activity. This unique position of Britain came to be challenged by the rise of two young nations in two parts of the globe—Germany during the last decade of the nineteenth century and Japan after the Russo-Japanese War. Since India was an open market, since Indian commerce was thrown open to all nationalities, these two countries entered the field of Indian commerce, backed as they were by the whole machinery of their administration. The direction of trade had thus changed. Apart from Britain, India established direct trade connections with Germany and Japan. Other countries were however content to deal *via* London.

We have already said that from the beginning of the 19th century, manufactured commodities had totally disappeared from the external trade of India. From the middle of the last century, however, two industries, cotton and jute, had their beginning in this country on western capitalistic lines. It is wellknown that the jute industry started under the European managing agency while the cotton industry under that of Indian financiers. The progress of the cotton industry was however impeded by the civil war in America which created a cotton famine in England and theretore the demand for cotton from India in British market increased. Whatever that may be, from the late seventies of the last century, the manufactured products of these two industries began to appear in the list of exports, although their proportion was a negligible one, and it was not before the first great war that their proportion changed to any appreciable extent.

Towards Self-sufficiency

This is no place for us to go into the details of the Indian trade developments since 1870. They have been the subject of researches by many Indian students. Whether at all times they have been able to hold balance in offering their judgment on this period or not, there is no doubt that inspite of all obstacles, economic, political and constitutional. India is slowly but surely progressing towards a self-sufficing economy. It is true that some of our social and political institutions have stood in the way of our progress. It is also true that "the existence of an alien government has led to suspicion of, and at the same time to undue dependence upon, governmental action and leadership." But even then, of the few countries of the world who can develop a balanced economy, India is one. Our trade statistics reveals a tendency in the same direction. In matters of the supply of cotton piece-goods, jute manufactures, sugar, iron and steel, matches, cement, engineering products, India has either exceeded the limit of self-sufficiency or is fast approaching it. Inspite of the great depression, the sugar industry in India has come to exist; the cotton textile industry underwent financial reorganisation and hence was able to expand output; the iron and steel industry rationalised the processes and thereby increased efficiency. It is also known that the cement industry consolidated its position through the cement merger.

In case of certain other products, *e.g.*, paper, glass, soap, etc., a number of industrial establishments have been started and India is fast approaching self-sufficiency. A number of minor industries which have recently sprung up have been supplying electric lamps and appliances, rubber tyres, cooking stoves, paints and enamels, cement products, etc., etc. In matters of chemical production, India has requisite resources for their large scale production. But partly due to the uneconomic scale in which production is carried on, but mainly due to the half-hearted policy of the Government and the withdrawal of production in 1933 the industry has not been able to proceed much. However it has made progress by taking advantage of the artificial

protection of the years of the second world war. It is of course true that most of the above items are not exported; but in so far as they reduce these items in our import trade, it is a tendency for the better; and as they expand and increase in competitive efficiency, it may be expected, they will even constitute important items in our export trade.

The rise of Indian industrialism, though not as phenomenal as in Japan or Germany, is in itself of sufficient importance, particularly so when we had to proceed through so many handicaps in political field. State assistance in the form of protection—though of a discriminating character—did not come before 1924 and so whatever industrial development had taken place is due to the enterprise of the business community, and to the artificial protection given by the first great war. All through this period, the government had adopted a passive attitude; and whenever it had interfered, *e.g.*, in passing labour legislation, in the imposition of countervailing cotton excise duty, in increasing the customs duty against bounty-fed sugar, its motive had been either to place British industrialism in an advantageous position with regard to the Indian market or to protect the Indian market for the Empire sugar industry. From 1905 the government showed some signs of interfering in economic affairs for the development of industries, *e.g.*, the Madras government showed its willingness to support aluminium production; but the policy was shortlived in view of the dictates from superior authority. Had she been in an advantageous position in political matters, as Japan or Germany, she would have achieved much more.

Today India is hopelessly dependent on foreign countries for the supply of capital goods. "India's imports still consist chiefly of a great variety of manufactured goods and the trend has been towards high-quality goods, including machinery, plant, mill accessories, motor vehicles, instruments and apparatus and other articles necessary for increased industrial production within India." It is not that in matters of above supplies India cannot be self-sufficient. That she could not be so is due to the pressure of political factors. Now the circumstances are changing; new forces are developing. What was impossible in 1900

is possible today; and what is impossible today will be possible in future. Had our deficiency been in matters of fundamental supplies, we would have reasons to be pessimistic. But since that is not the case, we can look forward to a time when forces will lead India towards self-sufficiency in all fields, towards a restoration of the balance which had been lost temporarily from 1800.

PART I

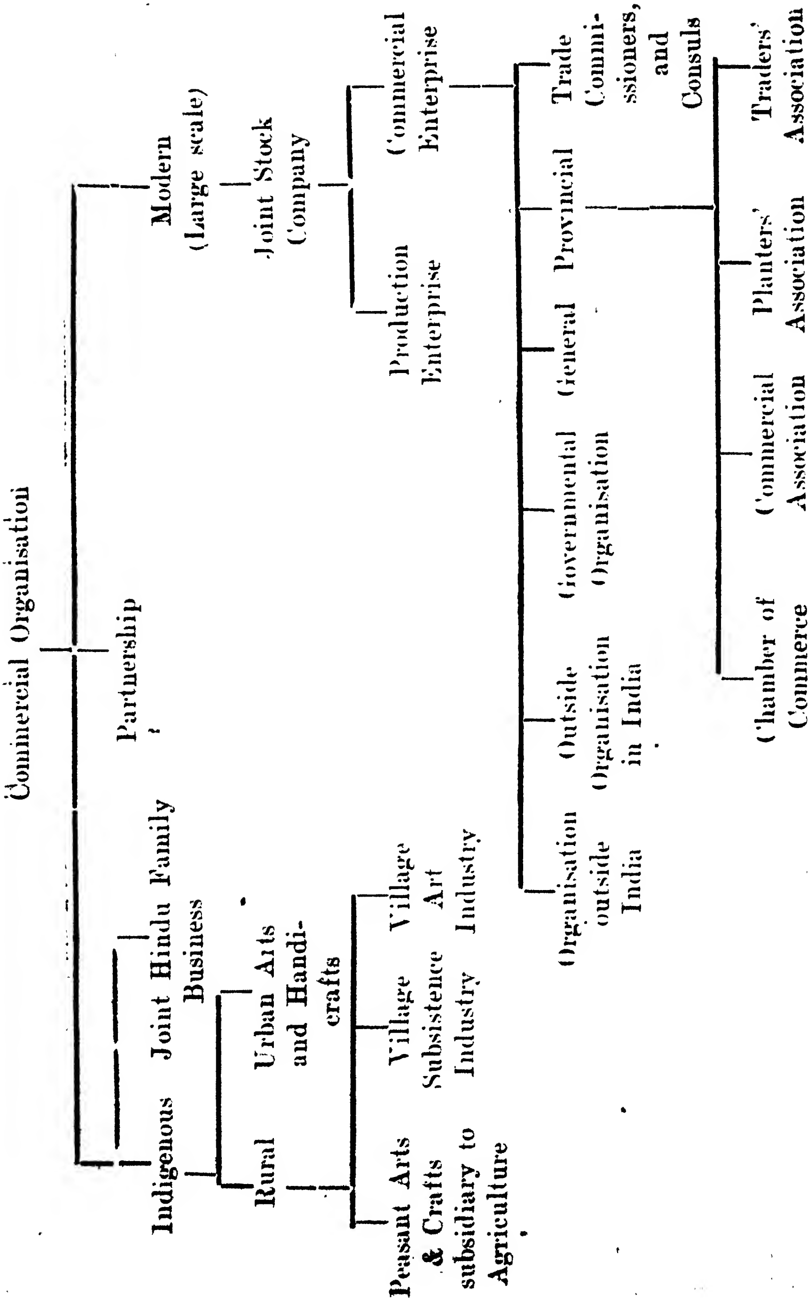
TRADE

CHAPTER I

COMMERCIAL ORGANISATION

Introduction

It has rightly been observed that "in no country is it possible to distinguish sharply between industrial, commercial and financial organisation, especially where, as in India, the same middlemen, or dealers act as bankers, traders and promoters of industrial enterprises." (Anstey). Although India had developed her commercial activity at an early date, yet specialisation was not very common, the same man combining so many commercial activities in his own hands, which we find even to this day. That is why any clear idea as to the commercial organisation in India is rendered extremely difficult. Thus it is wellknown that the indigenous banker in India is not only a banker but a trader as well, and at times even an insurer, a marketing agency and what not. Or take the case of the managing agency system. Here the firm of managing agents acts not only as financiers but also as company promoters, organisers and managers. The difficulty is all the more enhanced in view of the fact that India has not seen commercial revolution in the same sense in which the western countries have done. The result has been that while we have adopted some new elements from the western countries in our commercial structure, the old institutions remain and the commercial organisation in India today is a conglomeration of so many elements, old and new, indigenous and foreign. An idea about the commercial organisation in India can be had from the following chart:


Commercial Organisation
Indigenous
Partnership
Modern (Large scale)
Joint Hindu Family Business
Rural
Urban Arts and Handicrafts
Joint Stock Company
Production Enterprise
Commercial Enterprise
Peasant Arts & Crafts subsidiary to Agriculture
Village Subsistence Industry
Village Art Industry
Organisation outside India
Outside Organisation in India
Governmental Organisation
General
Provincial
Trade Commissioners, and Consuls
Chamber of Commerce
Commercial Association
Planters' Association
Traders' Association

Indigenous Commercial Organisation

The above chart gives in brief the commercial organisation in India. As already noted, it has not been possible for us, except for a commercial revolution, to get rid of some of our old organisations, which, even to this day, constitute a part of the commercial structure of this country. Till recently, Indian rural economy was noted for its self-sufficiency, which no force of modernisation could sweep away. In these circumstances, it is but natural that some industries should thrive and prosper. The organisation of this part is as old as it is varied from province to province; nay, within the same province it differs from place to place. But one feature is very common in all parts; it is the existence of middlemen and their too much hold on the indigenous commercial organisation. The exact nature of this hold is difficult to determine but it may roughly be laid down that it depends on the nature of the productive organisation. The greater the number of producers and the more scattered their production, the lesser the possibility of their organisation and hence the greater the possibility of the existence of middlemen. In this respect, again, the urban producers are worse off than the rural producers. There are reasons. The rural producer produces for a limited market, in view of the self-sufficiency of every village; his productive organisation is small; his field of distribution is extremely limited. Besides, for many, it is only a subsidiary occupation, the principal one being agriculture. Rural art industries are not too many, and only in a few villages, where they had obtained supports from the princely houses or nobles or landlords, they had developed because of this backing. In these industries, however, the prevalence of middlemen is not uncommon. As Mukerjee says, "As the industries develop variety or distinctiveness, the middleman slips in and supplies the artisans with raw materials with the object of obtaining cheaply their manufactured goods. This no doubt ultimately leads to the extension of markets, but isolated and unrelated industries lend themselves easily to exploitation by middlemen."

The scope for exploitation is very great in urban arts and handicrafts, particularly so in view of the fact that the producers have no other alternative means of livelihood and that the markets for their products are extended not only inside the country but even outside. Not only that; the costly nature of the productive processes, the high price of raw materials, and the need for specialisation of the distributive agency have all combined to make the middleman a sort of dangerous necessity. It is not that the middleman could not have been abolished; but the fact is that the producer "has not the means, the capacity or the organisation to dispense with the middleman," with the result that "the actual artisans rarely, if ever, received more than a bare subsistence." These middlemen may be working either on their own behalf or may be agents or contractors working on behalf of some third party, and most often they have two-fold functions to discharge, *viz.*, working as financiers and as pooling or co-ordinating agency. When they are working on their own behalf, they mostly depend on their own finances; but while working as agents, they obtain funds from their principals. Advances are given by the middlemen not only in money, but also in kind, when the requisite materials are costly and hence beyond the means of the artisan. Even in many cases where the help of middlemen as a distributing agency is not sought, the artisans obtain materials from them on a piecewage system and when the products are ready, they are directly disposed of among the consumers. Some of these middlemen are itinerant in nature; they move from place to place making advances either in money or in kind and when the products are ready, purchasing them from the producers. But there are also more organised and established types of middlemen, to whom it is the artisan who comes for advances and brings the product for disposal, when ready. A more advanced type of organisation, which resembles the domestic type of industrial enterprise in the west, is the small workshop or *karkhana* under a master artisan who purchases the labour-power of other artisans, provides them with necessary equipments and is the owner of the produce himself. The peculiarity of this domestic type of industrial

enterprise in India lies in the fact that it also combines within itself the elements of the medieval guilds. These workshops are most often caste enterprises where the master artisan employs people of his own caste. But it must not be forgotten that these guilds also combine with them the workshop organisation which was the peculiarity of the domestic type of enterprise. In some cases, however, as in silk-weaving or metal trade, the workshop organisation is not associated with the guild but is due to the enterprise of some capitalist who may have accumuloted wealth which he invests in business.

As already said, the middlemen not only provide the productive equipments but also supply the requisite capital and serve as distributing agency. The middleman as financier is particularly required in those industries which are of costly nature, particularly so in view of the fact that there is no effort worth mentioning in the direction of providing financial assistance to small industries. In fact, in some industries, like silk-weaving, metal works, embroidery, etc., the middleman is indispensable and the forces of circumstances are such that the individual worker working in his cottage in some of the costly industries is gradually giving way to the workshop organisation. In those lines where the processes of work are varied and specialised, the middleman is essential as a co-ordinating agent. No less important is the middleman as a distributing agent, so much so that in the early stages the East India Company engaged agents for pooling products from as many sources as possible which they ultimately disposed of in the European market. Since then, the number and variety of middlemen have, instead of decreasing, increased. The new changes introduced in European market made for more standardised types of products and the scope of industrial art became limited. Increased demand for cheap standardised products led to a decline in India's original arts and crafts, and the efforts at stimulating the production of cheap standardised products not only led to the rise of a class of unskilled workers at the cost of master artisans but also to an increase in the number and variety of middlemen as financing and pooling agency. This has at the same time

led to a decline in the influence of the guild which all the more has strengthened the influence of middlemen. Unless some systematic control is developed and co-operation is introduced, it is too much to expect that the middleman will outlive his utility, however undesirable he may be.

Modern Commercial Organisation

The Hindu joint family or partnership type of organisation is very old in this country. We have studied their features in details in the first volume of this work and have nothing new to add here. The advent of joint-stockism is more recent and is due to the non-Indian enterprise. The reason for this is not far to seek. Under the uncertain political conditions prevailing at the time, it was not possible to pool the savings of the public in a joint enterprise, particularly so when the success of the project was not assured. However, when joint-stockism became a recognised form of commercial organisation, many of the plantations and factories, partly Indian but mainly foreign, were converted from private enterprises into joint-stock companies, most of which were registered with foreign capital and outside India, mainly in England. Even in our foreign trade, which became a monopoly of the westerners, joint-stockism came to prevail. In the field of banking, industry and trade a few joint-stock companies had been formed inside this country but their capital and extent of work were negligible in comparison with those of foreign enterprises. Since the beginning of the present century, the movement has steadily developed among Indian enterprises and particularly in the years following the first world war, the country has seen a boom in the field of company floatation in which the savings of war-time prosperity were invested. But it must be admitted that the financial strength of Indian joint-stock concerns is much less than that of non-Indian enterprises. It is true, as has already been seen, that financial optimum is nothing absolute or hard and fast and depends on the various factors. But when in the same field, two units have different financial strength, it must be admitted that the financially weaker concern is at a disadvantage.

Now a few words need be said about commercial associations that have been directly or indirectly helping the productive and distributive enterprises in this country. The first in our list is the organisation outside India. In this respect, mention may be made of the East India Section of the London Chamber of Commerce opened in 1912 and charged with advocating in the U. K. of questions of commercial interest in India. In 1927, an Indian Chamber of Commerce was started with a view to further the Indian commercial interests in Britain. It is desirable that these organisations should see that the disabilities and arbitrariness imposed on Indian products are removed. We have seen in the first volume how Indian agricultural products suffer outside in matters of sampling and hence of pricing, which means a huge loss to the country. There are similar other disadvantages which it should be the duty of these commercial associations to remove.

The next in order of our arrangement is the Indian National Committee of the International Chamber of Commerce. The International Chamber of Commerce, Paris, was formed to facilitate the commercial intercourse of countries, to secure harmony of action on all international questions affecting finance, industry and commerce and to encourage cordial relations between businessmen and commercial organisations. The Indian National Committee was formed to further these objectives and it has 36 organisation members and 87 association members. It is allied to the Federation of Indian Chamber of Commerce and Industry.

Next we turn to government organisations for furthering Indian trade and industry. In the first volume we have noted about the various government departments assisting Indian trade. A few words may be said here about the Indian Stores Department. It is well-known that the various public departments both at the centre and in the provinces and also the railways purchase stores, but the stores purchase policy of the government came in for a good deal of criticism in view of the fact that the function was till recently entrusted to the Stores Department of the India Office in London and the commodities were mostly imported from abroad, particularly Britain. Although the govern-

ment had long ago enunciated their policy in this respect which would be in favour of the purchase of products of Indian origin, actually nothing was done to do so, and when the Industrial Commission investigated during the first World War, it was found that preference was given to British products even when they could be available inside the country at the same price, and not inferior in quality. The Government of India tried to justify its policy on the ground that in this country there was no suitable inspecting agency and hence they had to avail of the services of the India Office. The Industrial Commission, however, suggested a policy of stores purchase inside India which would stimulate Indian industry and trade. Accordingly, the Stores Purchase Committee was appointed and on the basis of its recommendation, the Indian Stores Department was formed in 1922. It is primarily concerned with making purchases for the Central Government, either in India or abroad in accordance with the Stores Purchase Rules, of stores of all descriptions except lethal munitions, foodstuffs, medical stores, stationery and a few other classes of articles. It has, however, been laid down that the Stores Department, when satisfied, may "allow a limited degree of preference, in respect of the price, to articles produced or manufactured in India. Subject to the above, preference in making purchases will be given (a) to articles which are produced in India in the form of raw materials or are manufactured in India from materials produced in India over articles wholly or partially manufactured in India from imported materials or articles not manufactured in India, provided that the quality is sufficiently good for the purpose; (b) to articles wholly or partially manufactured in India from imported materials over articles not manufactured in India, provided that the quality is sufficiently good for the purpose; (c) to articles of foreign manufacture held in stock in India over those which would need to be specially imported provided that they are of suitable type and requisite quality; (d) to articles manufactured abroad which need to be specially imported." Although the primary function of the Department is to make purchases on behalf of the Central Government, its services are also available to Local Governments,

Indian States, public bodies, etc., as may desire to avail themselves of these services.

The Indian Stores Department consists of the Office of the Chief Controller of Stores, located at the headquarters of the Government of India, Purchase Circles at Calcutta, Bombay and Karachi, a Test House at Calcutta and inspection agencies at Calcutta, Jamshedpur, Bombay, Madras, Cawnpore, Lahore and Karachi. The Head Office has three sections—Administrative and Intelligence Branch, Purchase Branch and Inspection Branch. As the name indicates, the first branch is in charge of the general administration and market intelligence, the second one of receiving indents for purchases and the third one is concerned with all the technical matters, such as, drawing up of specifications, standardisation of stores, giving technical advice to all concerned with purchase, etc. The Purchase Circles at Calcutta, Bombay and Karachi are concerned with indents of comparatively small value which may be handled on the spot most effectively. It is the function of the inspection agencies to undertake the inspection of finished articles as also of stores throughout the process of manufacture. The Government Test House of Calcutta undertakes all physical and chemical tests and the analysis of stores of various descriptions. The Metallurgical Inspectorate at Jamshedpur is entrusted with the function of inspecting throughout the process of manufacture, mainly the products of the Tata Iron and Steel Co., Ltd.

As already indicated the purchasing activity of the Department is not confined to Indian markets. Only preference is given to the Indian products in accordance with the Stores Purchase Rules. When stores are purchased abroad, the services of the Indian Stores Department, London are utilised, although these two are entirely distinct organisations. So far as purchases in India are concerned, when the value of stores to be purchased exceeds Rs. 5,000/-, tenders are invited by advertisement; but for all purchases below that amount, purchases are made through the contractors on the approved list. When purchases are made for local governments, Indian States and other public bodies, a charge of 1 per cent. of the value of the product is made for pur-

chase or inspection of the purchases; but where both these services are rendered, the charge is 2 per cent. of the value of the commodities for meeting departmental expenses. The Intelligence branch maintains up-to-date and reliable information regarding sources of supply, market, price, etc., and renders other services not only for increasing the efficiency of purchase but also for placing, whenever possible, consumers in touch with Indian sources of supply.

A new organisation known as the Industrial Intelligence and Research Bureau has been attached to the Department, whose principal functions are:—

(1) Collection and dissemination of industrial intelligence.

(2) Collaboration with Provincial Directors of Industries in all matters relating to industrial research.

(3) Publication at intervals of bulletins relating to industrial research and other matters connected with industrial development.

(4) Assistance to industrialists in India by giving advice and making suggestions as to the directions in which research should be undertaken.

(5) Collaboration with the various organisations of the Central and Local Governments with a view to ensuring that specifications prepared or issued by them provide as far as possible for industrial standardisation.

(6) To assist in the organisation of industrial exhibitions in India.

Regarding the nature and functions of the General or All-India and Provincial Commercial associations, discussions have been given in the first volume. Here we shall simply mention them. In the General or All-India group may be included the following organisations:—

(1) The Associated Chambers of Commerce of India started in 1920—15 chambers as members.

(2) Federation of Indian Chambers of Commerce and Industry—started in 1926—48 chambers as members.

(3) All-India Organisation of Industrial Employers. Cawnpore—started in 1932—membership open to any indivi-

dual, firm, joint-stock company or corporation engaged in any industry and also to industrial associations.

(4) Indian Chamber of Commerce, Calcutta (1926)—26 members.

(5) Indian Colliery Owners' Association, Calcutta (1933).

(6) Indian Chamber of Commerce, Lahore, (1912).

(7) Indian Jute Mills Association, Calcutta, (1884).

(8) East India Cotton Association, Ltd., Bombay (1921).

(9) Indian Tea Association, Calcutta (1881).

(10) Indian Central Cotton Committee (1921).

(11) Indian Mining Association (1892).

(12) Indian Mining Federation (1913).

(13) Mining and Geological Institute of India (1906).

(14) Wine, Spirit and Beer Association of India (1892).

In the chart given earlier in this chapter, it will be seen that there are four types of provincial commercial associations. Their distribution in different provinces can be seen from the following table, brought upto 1945:—

Table showing the Distribution of Provincial Commercial Association:

Province or Region	Chamber of Commerce	Commercial Associations	Planters' Associations	Trades Asso-ciation
Bengal	... 7	9	1	2
Bombay (including Sind)	... 5	10	—	1
C. P. & Berar	... 2	—	—	—
Bihar & Orissa	... 5	—	1	—
Madras &/or South India	... 10	2	1	1
U. P.	... 3	1	—	—
Punjab	... 3	—	—	—
Delhi	... 1	—	—	—
Mysore	... 1	—	—	—

The last item in our charts is Trade Commissioners and Consuls. The following are the Trade Commissioners services in India with their functions and objectives noted against each.

(1) British Trade Commissioner Service—The headquarter of this service is the Department of Overseas Trade, London, a joint Department of the Board of Trade and Foreign Office, created in 1917, and is only a part of the worldwide Commercial Intelligence Organisation of the Imperial Government. Its object is to stimulate the overseas trade of the U. K. by securing commercial information from all parts of the world, by disseminating to British manufacturers and exporters by undertaking such special constructive activities as may be found possible and by assisting traders in the removal of their difficulties. The Department has nothing to do with the regulation of trade; its purpose is simply to assist in the furtherance of trade without any interference. In fulfilling this objective, it is the function of the British Trade Commissioner to watch and report from time to time to the Board of Trade and the governments of the Dominions concerned on all matters affecting industry, trade and commerce, to maintain cordial relations with the governing authorities of his area, to enter into personal relations with commercial organisations, principal representatives, importers and local manufacturers and to do everything essential for the furtherance of British trade in this area and for keeping the commercial interests in Britain informed about all essential developments. For this purpose, the Department maintains throughout the world a network of trained and experienced commercial intelligence officers.

(2) Canadian Commercial Intelligence Service—The services of the Canadian Trade Commissioner are at the disposal of Canadian firms who are interested in the export of goods to these markets. He also helps Canadian manufacturers and others who may be interested in any Indian products. He also keeps in touch with import firms in his areas and encourages the import of Canadian products.

(3) Australian Government Trade Commissioner Service for India, Burma and Ceylon—He acts as a link between

the producers at home and importers in his areas, maintains a flow of trade information to the Department of Commerce, Australia, which is supplied to Australian exporters as also information on specific openings for trade in any field and watches the demand for particular goods. The service also meets credit status enquiries and provides details of terms of payment.

(4) The Ceylon Trade Commissioner for India was appointed for the first time in 1937 for a period of three years and on the expiration of this period, the government has decided to continue the Trade Commission for a further period. His function is to put the Ceylon producers into direct touch with Indian importers and to see that all Ceylon products get a fair deal in the Indian market.

(5) South African Government Trade Commissioner Service—The appointment is only a recent one and the Trade Commissioner was appointed in 1940 for furthering the export of South African products to India, to supply necessary information to the exporting firms in South Africa and to render all possible help to the representatives of the South African firms who may visit the Indian market. He also provides information to the local importers who wish to contact South African exporters and manufacturers. During the years of the second world war, the Trade Commissioner rendered very valuable service to the government of his own country in matters of purchase and prompt shipment of various essential commodities from India with the co-operation of the relative government control bodies in India.

A few words may now be said about the Consuls of which there were 43 in India upto July 1945. Among other functions, they render certain very valuable services in the furtherance of trade. They are the representatives of foreign countries in India and their function is to collect valuable commercial information and to supply it to those exporters at home who may be interested. In the same way the importers in India also can obtain various information from them. One of the principal functions of the Consuls is to issue Consular Invoices without which no goods can generally be exported to foreign countries.

We have reached such a stage in the commercial development when no country can neglect the question of pushing their exports. This is a new phase of mercantilism and every country of commercial importance has adopted it. So far as we are concerned, there are many gaps to be filled in as yet. It should be remembered that occasional investigations as that made by the Meek-Gregory Commission, however useful, cannot serve the same purpose as the Trade Commissioner's services can do because of permanent contact with particular areas. It should also be remembered that in our export trade, non-Empire countries occupy a more important place. If the already captured markets are to be retained and new markets to be created, we should consider the question of maintaining permanent link with different regions by some such organisation as Trade Commissioner Services. As yet the steps taken are not enough. It is high time for the government, the manufacturers and producers and also the exporters to consider this aspect of the question.

Rise of Public Corporations

Public Corporations are a new form of commercial organisation that have taken shape in the present century and that too under the pressing needs of the war. In the words of A. Robson, public corporation is "the most significant development in the field of political institutions which has taken place during the present century." These corporations are formed by the state for the performance of some specific public functions with the authority of the state behind them. Generally the nature and extent of their power are defined at the time of their formation but then they are given a sufficient amount of initiative and flexibility so that they may adjust themselves to changing circumstances. It should however be remembered that this flexibility, so very essential, can be maintained only because the bureaucratic control is no longer there and in this, therefore, the public corporations differ from any other department of the state. It has been recognised that the stereotyped procedure of any administrative department, if applied to public corporations, would surely lead to stagnation. Nor are they similar to

private monopolies, for, they are mostly free from the disadvantages that are often associated with monopolistic enterprises. The impetus for work in public Corporations must come from within and not from the forces of competition or the desire for earning maximum profit. The social purpose always looms large. It should not, however, be missed that the general norms and elaborate procedure for the conduct of business are as true of public corporations as of private concerns and monopolies.

Public Corporations may, broadly speaking, be of two types—Corporations executing public policy and fulfilling social purpose with or without operating and administering economic enterprises. Of the latter variety mention may be made of the Railway Board in India. In England, the Port of London Authority, the B. B. C., the Central Electricity Board, etc., and in U. S. A., the Tennessee Valley Authority fall in this category. Of the former variety, mention may be made of the Central banking institution, *viz.*, the Reserve Bank of India, the U. K. C. C., etc., which perform definite economic functions. This variety of public corporations came into great popularity since the years of great depression when the governments of the different countries of the world established their own corporations. The years of the second world war saw the rise of giant public corporations of which the U. K. C. C. is the most well-known. This Corporation was registered in the U. K. in April, 1940 and soon assumed a monopolistic control of war-time foreign trade of India and several other countries, to the greatest disadvantage of the local traders. The corporation obtained a full monopoly of trade of India with Russia and also with countries like Iran, Turkey, Syria, Palestine, South Africa, etc. The Indian trading community was much hostile to any such organisation but could not help in view of the apathy of the Government, in forming any such enterprise as Indian Commercial Corporation in this country. However, with the termination of hostilities, the U. K. C. C. has ceased to function.

The Government of India, in their future industrial policy, have indicated that a number of industries will be directly owned and managed by the state with the help of

certain public corporations formed for the purpose. As regards other industries, the Government stated that they will either be jointly financed and administered by the state and private individuals or simply by private individuals subject to varying degrees of control from the administration, which will be aimed at securing a balanced development of the different regions, an even investment of savings, and protection of the legitimate interest of the workers, *e.g.*, fair wages, decent living conditions, security of tenure, etc. In the words of Gyan Chand, "If this scheme is to be put into effect, it would be necessary to set up public boards not only for managing the state-owned enterprises, but also for regulating and controlling the development of all industries, for the mobilising and allocating of surplus funds of the community, for licensing the establishment and location of industries, for standardising and marketing agricultural produce, for organised development of agriculture,...for controlling exports from or imports into the country or for bulk trading which under the post-war conditions will become unavoidable."

Government in Business

Since 1943, the Central and Provincial Governments have progressively taken over the functions of trade in foodgrains. The quantities which are procured by Provincial Governments alone now amount to over 4,500,000 tons a year of which 1,500,000 tons more under the Government of of India's Basic Plans. It is an accepted policy of the Government that steps should be taken to stabilise agricultural prices in future. One of the proposals made is that the Government of India should hold, at strategic centres, about 2,000,000 tons of foodgrains, mainly wheat and rice, to support the minimum and maximum prices to be guaranteed by the Government. In matters of industrial development, since the commencement of the second world war, the Government has been trying to increase the supply of trained personnel and to help industrial development but yet the progress made was much less than that made in other countries or other parts of the British Commonwealth. With the

change in the Constitutional set up, the Government is now actively interfering more and more in economic affairs, particularly with a view to speed up the progress of industrialisation of the country. Thus in course of the last few months a number of research stations have been founded. The Government has decided that two new steel plants each with a capacity of 500,000 tons and with the possibility of expansion to a million tons, should be set up under the auspices of the state. The Government is also considering the possibility of utilising the spare capacity of our ordnance factories, which were remodelled and expanded during the war, for meeting the needs of industry. Besides, the Government has decided to utilise the Mathematical Instruments Office in Calcutta for production of scientific apparatus, to expand Alipore Test House, to institute quality control, so very essential in foreign trade, through the newly started Indian Standards Institute, and the Government is considering the possibility of the manufacture by the state of penicillin, anti-malarial and sulpha drugs, and the necessity of revising the existing Patent Law so as to make it more effective. The railways, the ordnance factories, the Hindustan Aircraft Ltd., and a number of public utilities are already state-owned and operated. The fertilizer factory, which is under construction in Bihar and the large projects of power development, *e.g.*, Damodar Valley Project are going to be executed as state enterprises. It is interesting to note that the National Planning Committee has recommended that all defence and key industries should be owned and operated by the state. The Advisory Planning Board recommended that apart from defence industries, and any industry or branch thereof which it might be found desirable to start as a state enterprise, the nationalisation of the following should be considered:—Coal, mineral oils, iron and steel, motor, air and river transport. For the rest, the Board has advocated Central Planning. This clearly indicates that in any future plan for the economic development of India, the state is bound to figure very important.

CHAPTER II.

LEGAL ASPECTS OF BUSINESS.

Indian Sale of Goods Act, 1930.

So far as the foreign trade is concerned, we have indicated in the first volume the various technicalities, the need for patents and trade marks, the documents used, etc. In the present chapter we shall consider the legal aspect of business as it applies to the trade of India. It is wellknown that upto 1872 Indian trade was governed by usages which were as good as law, and were hardly violated. In fact, the business morality in India had been very high. Chapter VII of the Indian Contract Act of 1872 was the first legislation dealing with sales contract—the purchase and sale of goods in British India. With increasing complications, however, this law had long ceased to be adequate and in view of the inadequacy of Indian legislation, it had often been essential to apply the English law in Indian courts. This caused great inconvenience to the business community, which was set aright by the Indian Sale of Goods Act of 1930. It must however be remembered that the general provisions of the Indian Contract Act, from SS.1 to 75, are still applicable to the contracts for the sale of goods in so far as they do not conflict with the specific provisions of the new legislation.

Goods

Goods under the Indian Sale of Goods Act means every kind of movable property other than actionable claims and money; and includes stocks and shares, growing crops, grass and things attached to or forming part of the land which are agreed to be severed before sale or under the contract of sale. This definition as given in the Indian law seems to be much wider than that given in the English law, in so far as the latter does not include items like stocks and shares within its fold.

Contract of Sale

In the field of business, specialisation has gone so far that in most cases, the producer is not the same man or concern as the distributor. Even among distributors there are so many types. Hence the need for purchase and sale, which, in themselves, have come to be regarded as specialised functions. Since all purchase is effected with a view to subsequent sale, it is essential that both these functions should be carried on in close co-operation. In small concerns, they may be entrusted in the same hands; in big ones, they may be separated, but even then they should maintain a link and the purchaser should have an intimate knowledge of the merchandise in which he deals as also in the legal aspect of purchase and sale.

According to the law, a contract of sale of goods is a contract whereby the seller transfers or agrees to transfer the property in goods to the buyers in return for a price. A contract of sale may be either absolute or conditional, the latter depending upon a contingency which may or may not happen. In case it does not happen, the seller will of course not be liable to transfer the property in goods. But when the condition is fulfilled, he is bound to deliver goods or pay compensation. Thus, for instance, a sale contract is conditional upon the safe arrival of a particular vessel. If the vessel arrives but there are no goods on board, the seller is liable, because at least the vessel has arrived safely, which was the condition. A sale contract may be of two types—sale and agreement to sell. In the former case, the property in goods is transferred immediately from the seller to the buyer; but in the latter case, the fulfilment of the contract or the transfer of the property in goods is to take place at some future date agreed upon, or subject to some condition thereafter to be fulfilled.

Before the contract is entered into, the following procedure is very common. The prospective customer drops an enquiry regarding quality, price, terms of payment and other conditions. It is then the duty of the seller to prepare an estimate and to quote price in the tender. The quotation is an extremely complicated affair; for, it is nothing abso-

lute, but depends on the services to be rendered and the place of delivery, and according to these, he will quote Loco price, at Station Price, Free on Rail (F. O. R.) price or Franco Price. In the first case, the delivery is to be taken at the seller's warehouse, while in the last one, delivery is given in the purchaser's warehouse. The distinction between At Station Price and F. O. R. price is slight, in so far as in the one the seller's duty is over as soon as the goods are delivered at the station while in the other, the seller has to bear the expenses of loading the goods on board the rail or steamer. All further charges, like freight, insurance, etc., will be borne by the purchaser. When the price estimate is ready, the seller should take proper care to see that the tender is sent in proper manner with all necessary details.' It should not only contain price quotations, but also the date of delivery, the terms of payment, etc., cash or credit, cash with order or delivery, trade discount, etc., time of acceptance and communication, guarantee as to above clauses, etc. When the matter is settled, a formal contract may be entered into which may provide for the immediate delivery of goods or immediate payment of the price or both, or for the delivery or payment by instalments or it may provide that the delivery or payment or both shall be postponed. The whole thing depends either on usage or on previous agreement and the transaction is carried on accordingly. In indigenous practice a formal contract is uncommon and often deals worth huge sums are settled by mere words backed by the usages of trade in matters of delivery, payment, guarantee, etc. Whatever that may be, the law has made the position clear and removed causes of trouble.

Whether written or oral, whether based on sample, trade description or personal inspection, a sale contract has the following characteristics. In the first place, in any sale contract, there must be two parties indicating mutual consent to the deal. Secondly, the transaction must relate to goods, and not money, and goods does not mean only present goods, but also includes future goods, to be produced or acquired by the seller. While in the first case, it is sale proper, in the latter case it is an agreement to

sell and will be a sale on the expiry of the stipulated period. Thirdly, a sale contract involves a transfer or agreement to transfer the property in goods from seller to buyer. In case of future contracts, it is essential that every item in the agreement should be as clear as possible, particularly so with regard to the item of risk of price fluctuation, deterioration in quality, etc., so that there may be no scope for dispute.

Price

According to the law, the price in a sale contract may be fixed by a contract, or may be left to be fixed in a manner thereby agreed or may be determined by the course of dealing between the parties. Where the price is not determined, the buyer shall pay the seller a "reasonable" price—being dependent on the circumstances of each particular case.

Stipulations—Condition and Warranty

In a sale contract, there are a few stipulations which are of the essence of contract, while there are others which are not. Thus, *e.g.*, unless otherwise agreed upon and unless a different intention appears from the terms of the contract, stipulations as to the time of payment are not deemed to be the essence of a contract of sale. In those items where stipulation is the essence of contract, it may be either in the form of condition or in the form of warranty. A condition is a stipulation essential to the main purpose of the contract, the breach of which gives rise to a right to treat the contract as repudiated. A warranty is a stipulation collateral to the main purpose of the contract, the breach of which gives rise to a claim for damages but not to a right to reject the goods and treat the contract as repudiated. Whether a stipulation in a contract of sale is a condition or warranty depends in each case on the construction of the contract, and not exactly on the use of this word or that. Unless the circumstances show a contrary intention in a contract of sale, there is:

(1) an implied condition on the seller's part that in a sale he has a right to sell the goods and in an agreement to sell, that he will have the right to sell the goods when the property is to pass;

(2) an implied warranty that the buyer shall have and enjoy quiet possession of the goods; and

(3) an implied warranty that the goods shall be free from any charge or encumbrance in favour of the party, which is not declared or known to be the buyer when the contract of sale is made. Apart from these, there are a few other implied conditions. Thus where there is a contract for the sale of goods by description, there is an implied condition that the goods shall correspond with the description; and if the sale is by sample as well as by description, *eg.*, Java sugar, it is not sufficient that the bulk of the goods corresponds with the sample if the goods do not also correspond with the description. Where the buyer, expressly or by implication, makes known to the seller the particular purpose for which the goods are required, so as to show that the buyer relies on the seller's skill or judgement, and the goods are of a description which it is in the course of the seller's business to supply, there is an implied condition that the goods shall be reasonably fit for such purpose. Where goods are bought by description from a seller who deals in goods of that description, there is an implied condition that the goods shall be of merchantable quality. In the case of a contract for sale by sample, there is an implied condition that the bulk shall correspond with the sample in quality; that the buyer shall have a reasonable opportunity of comparing the bulk with the sample; and that the goods shall be free from any defect rendering them unmerchantable, which would not be apparent on reasonable examination of the sample.

The Act clearly indicates the passing of property from the seller to the buyer. When the goods are sold, the seller ceases to be the owner of goods and the buyer becomes the owner. When goods are delivered to the buyer on approval or "on sale or return" or other similar terms, the property therein passes to the buyer when he signifies his acceptance

or approval to the seller or does any other act adopting the transaction. If he does not signify his approval or acceptance to the seller but retains the goods without giving notice of rejection, then, if a time has been fixed for the return of the goods, on the expiration of such time, and if no time has been fixed, on the expiration of a reasonable time.

Seller's Right to Sell

The Act is clear as to the seller's right to sell. Where goods are sold by a person who is not the owner thereof, and who does not sell them under the authority or with the consent of the owner, the buyer acquires no better title to the goods than the seller had. This however does not apply where the real owner of goods does not, by his conduct, deny the seller's authority to sell, where the goods or documents of title to goods are in the possession of a mercantile agent and where one of several joint owners of goods has the sole possession of them by permission of the co-owners.

Delivery

As regards the place for the delivery of goods, the Act is quite clear. Whether it is for the buyer to take possession of goods, or whether it is for the seller to send them to the buyer, is a question depending in each case on the contract, express or implied, between the parties. Apart from any such contract, goods sold are to be delivered at the place at which they are at the time of the sale, and goods agreed to be sold are to be delivered at the place at which they are at the time of the agreement to sell, or, if not then in existence, at the place at which they are manufactured or produced.

Quantity

As regards the quantity, if the seller delivers a lesser quantity of goods than that contracted for, the buyer may

reject the goods. If he accepts them, however, he must pay for them at the contract rate. If the seller delivers a larger quantity than that contracted for, the buyer may accept the goods he contracted to buy and reject the rest, or he may reject the lot. If he accepts the whole, he must pay for it at the contract rate. Much in this respect, however, depends on the usage of trade or any special agreement between the parties.

Despatch

When the despatch of the goods is to be arranged, the seller shall make such contract with the carrier on behalf of the buyer as may be reasonable having regard to the nature of the goods and the other circumstances of the case. If the seller fails to take all necessary precautions and to insure the goods, where necessary, and as a consequence, the goods are damaged or lost in course of transit, the buyer may decline to treat the delivery to the carrier as a delivery to himself or may hold the seller responsible for damages. This applies in case of F. O. B. contract where the seller is held responsible for the loading of goods on board the carrier. In case of F.O.B. contract, it is for the buyer to insure; but the seller is responsible for giving the requisite notice on the buyer so as to enable him to insure. This however does not apply in case of those contracts where the seller is responsible for delivery of goods at the station of the purchaser or at the latter's warehouse; for, in such a case, the price quotation covers all incidental expenses. In case the goods are rejected for any reason under the contract where the buyer has the right to do so, he is not responsible for sending them back, his duty is over as soon as he informs the matter to the seller. The buyer is deemed to have accepted the goods when he intimates to the seller that he has accepted them, or when the goods have been delivered to him and he does any act in relation to them which is inconsistent with the ownership of the seller, or when, after the lapse of a reasonable time, he retains the goods without intimating to the seller that he has rejected them.

Right of Unpaid Seller

A seller is said to be unpaid when the whole of the price for the goods has not been paid to him or when he receives a bill of exchange as conditional payment and the condition is not fulfilled by reason of the dishonour of the bill of exchange or otherwise. Where the property in goods has not passed to the buyer, the unpaid seller has, in addition to his other remedies, a right of withholding delivery similar to and co-extensive with his rights on lien and stoppage in transit where the property has passed to the buyer. Even when the property in goods has passed to the purchaser, the unpaid seller has by implication of law,

(*a*) a lien on the goods for the price while he is in possession of them;

(*b*) in case of the insolvency of the buyer, a right of stopping the goods in transit after he has parted with the possession of them; and

(*c*) a right of resale as limited by this Act.

CHAPTER III.

COMMERCIAL MARKETS

The word 'market' is susceptible to various interpretations. In narrow sense, it indicates a particular place where buyers and sellers meet to purchase and sell a commodity. In a wide sense, it implies not only any market place where goods are bought and sold but also any region where a deal is settled, may be in commodity, service or money. Marketing of service, which, in the main, implies labour market and labour supply is too big a subject and requires a separate treatment. So also the defects of the commodity markets in India, both in agricultural and manufactured commodities. Marketing of money will be considered in a subsequent chapter. In the present chapter we shall only consider the commodity markets in India as they are.

It may be asked, what part of business activity we shall call marketing? Some people have defined the marketing process as "that phase of business activity through which human wants are satisfied by the transfer of goods, services and rights." It is no doubt true that the ultimate aim of any business activity is simply the satisfaction of human want; but that is not our immediate concern. Marketing process indicates that part of business activity in which the property in commodity, service or money is being transferred from one person to another, at some profit (may be, some loss), with a view to better utilisation.

Marketing is an evolutionary concept. Its origin is to be found in that stage of the progress of humanity when man has lost his self-sufficiency and needs the products of other's labour. Hence even among the primitive tribes, some form of exchange of goods was common. With the progress of civilisation, the volume of goods exchanged increased. Upto a certain stage wants are the result of progress. With improving standard of living, human wants multiply. But after a certain stage, wants lead to progress

and impel the human genius to devise newer commodities and hence facilitate exchange all the more.

Specialised market is the result of commercial revolution when exchange activity, both internal and international, increased enormously. Instead of all transactions being carried on the same market, specialised markets developed, and some of them have gone so far as to develop only in a particular commodity, *e.g.*, cotton market, jute market, rice market, etc. In each market, again, marketing function began to be divided and specialised.

Types of Commodity Markets

Primary or Village Markets—Apparently, these are in the form of fairs, meeting on fixed days in a week in some particular spot where the products coming from a certain distance are bought and sold. As pointed out in the first volume, the area served by these fairs is not the same, but varies from province to province. The purchasers in these markets are mainly itinerant brokers.

Next to these primary markets are the Secondary Markets which are known as *mandis* or *ganjs* and are situated in the urban centres. Unlike the primary markets, these *mandis* or *ganjs* are regular markets where transactions take place daily. Those villagers who can afford to come to these markets, or where means of communication are convenient enough, the producer would naturally like to bring his products in these urban centres direct to the *Arhatiya*.

Secondary or Urban Markets are to be distinguished from the Terminal or Port Markets. Of course terminal markets do not exactly imply port markets. In terminal markets the produce is either finally disposed of direct to consumers or processors or is assembled for shipment of foreign destinations. It is only in the latter sense that terminal market is port market. The Calcutta, Bombay and Karachi markets are terminal markets in true sense because here large quantities of commodities are processed and consumed locally and assembled for export abroad. There are a number of inland markets, *e.g.*, Lahore, Cawnpore and

Delhi which function to some extent as terminal markets in the sense that the produce is received there from other sources far and near and are either consumed locally or sent to other districts or provinces.

Finally, a few words may be said about Regulated Markets. According to the Report on Fairs, Markets and Produce Exchanges, there are 16 regulated markets in Madras, 39 in C. P., 7 in Bombay, 22 in Hyderabad, 36 in Gwalior and 2 in Baroda. Markets in Madras deal in cotton, groundnuts and tobacco, in C.P., cotton and food-grains, in Bombay only cotton, in Hyderabad cotton, groundnuts and grains, in Gwalior in agricultural produce and in Baroda in cotton and groundnuts. The following advantages have been claimed in the said Report in favour of regulated markets:

(1) Market charges are clearly defined and specified. Excessive charges are reduced and unwarranted ones are prohibited.

(2) Market prices are regularised.

(3) Correct weighment is ensured by periodical inspection and verification of scales and weights, by the licensing of weighmen and by the supervision of weighments.

(4) Suitable arrangement for the settlement of disputes regarding quality, weighment and deductions, etc., prevent litigation, safeguard the interests of the sellers and smoothen business.

(5) The insistence on prompt payment of the value of produce by the buyer considerably helps the poor seller.

(6) Reliable and up-to-date market news are made available to the users of the market.

(7) Suitable quality standards and standard contract terms for buying and selling can be conveniently enforced in a regulated market.

(8) Reliable statistics of arrivals, stocks, prices, etc., can be maintained in a regulated market.

(9) Various facilities and conveniences at present unknown in many unregulated markets, e.g., sheds for the use of sellers and buyers or for the sale of produce, shady

trees, space for parking carts, water cisterns for cattle, storage accomodation for agricultural produce, etc., are provided in regulated markets.

(10) Propaganda for agricultural improvements, *e.g.*, use of good seed, adoption of improved methods of cultivation and grading of agricultural produce can be more conveniently undertaken in a regulated market.

Assembling and Distribution Agencies

The function of assembling is of great importance in a country like India where most producers produce on small scale, particularly so because the means of communication are not sufficient to link the inland producer with urban markets. Hence, the assembling of the produce from the fields constitutes one of the chief market services. The following agencies are common in assembling:—

(*a*) Cultivator—The cultivator always prefers—and it is also in his interest—to market his produce himself; but his hands are tied partly by his isolation due to the lack of satisfactory means of communication but mainly due to financial weakness. Only a microscopic fraction of the produce is marketed by the producer for assembling, in addition to that quantity—equally smaller or even smaller —which is sold directly by growers in retail lots to consumers and other small buyers.

(*b*) Growers who collect the produce of other cultivators.

(*c*) Landlords.

(*d*) Village moneylender who has extensive business in money which he advances to the cultivators and in return is paid in commodity at a price already agreed upon.

(*e*) Itinerant merchants or *paikars* and *fariahs*. Sometimes they act on their own behalf; but mainly they are the agents either of mills or of wholesale merchants, when they get a commission.

(*f*) Wholesale merchants or *kachcha* and/or *pucca arhatiyas*. We have discussed about them in the previous volume.

(*g*) Mills, particularly in case of products like paddy. In the main paddy-growing areas, the representatives or agents of the mills play an important part in pooling the produce to their principals. Since the mills want to eliminate unnecessary middlemen, their representatives or agents make direct purchases from the primary markets or even from the cultivator's place, and many of them offer advances even before the crop is raised. In certain parts, as in Madras, a fairly organised system obtains as a result of which millowners or wholesalers meet the producers or village brokers at some central space to carry on their business. In rice trade, the millowner as an assembling agent is second only to the wholesale merchant or commission agent and hence it may be said that they play a very important part in this direction.

(*h*) In the field of assembling, co-operative movement does not play any important part. Only in some provinces, a few societies are functioning in this line and it cannot be said that they have attained any high degree of efficiency in comparison to that of the already existing agencies.

The agencies in distribution are more or less the same as in assembling. The only additional agency is the exporter who works at the ports. Now-a-days, of course, many of them are trying to deal direct and have opened purchasing agencies in upcountry centres. Co-operative commission shops or other co-operative organisations in so far as they exist work mainly as distributing agencies, selling the products of members and even of non-members in individual lots.

Nature of Sale Contract

Three types of sales are common in this country—sale on sample, sale on fair average quality and sale on standard contracts. It will thus be seen that sales on the basis of recognised grades is not very common in view of the fact that standards and grades recognised throughout the country have not developed as yet. Hence many transactions are carried on on the basis of sample either handed over to the prospective buyer or sent by post. This type of transaction

is, of course, not very scientific because it leads to disputes as to quality of the goods supplied and that of the sample. In some cases, however, rough sort of trade descriptions have come into use which are resorted to by merchants engaged long in that trade.

Sales on fair average quality are undertaken by the *Arhatiya*, who pools the produce from different sources, mixes them up and thereby brings forth a fair average quality. This is a rough sort of grading in which the grading done by the cultivator is undone. "The brokers' practice in fact tends to abolish all gradations of quality by reducing it to one common f. a. q. standard." This he has to do because he undertakes group-sales of lots of varying quality at a flat rate. The fair average quality standard is of use in those markets where produce exchanges or futures associations operate. But even here, without hard and fast standards, transactions become difficult and hence the standard and tolerances for refraction are laid down in the terms and conditions of the local futures contracts. Outside the produce exchanges and futures associations, trading on f. a. q. standard as such is not very common. Thus in the internal trade in domestic rice, transactions on this basis are so few that it may be said that they are non-existent. Only in case of Burma rice of well-known trade descriptions, sale on f. a. q. standard is resorted to, because in this trade a fair degree of standardisation is possible and has already been achieved by some sections of the milling industry in Burma, which has facilitated the Indian trade. In the wheat trade, in the Punjab and Northern India, generally speaking, the fair average quality of each important market is usually known to the buyers immediately after the harvest, if not earlier and on the basis of that standard, purchase and sale in that season are carried on.

Another variety of sale is based on standard contracts. In the rice trade, *e.g.*, the only standard contracts in use are those of three trade associations, *viz.*, the Calcutta Rice Merchants' Association, the Calcutta Grain, Oilseed and Rice Association and the Bombay Rice Merchants' Association and apply to imported stuff. The standard contract of the Calcutta Rice Merchants' Association specifies the

description of delivered rice, the quantity, price, the port and month of shipment, terms of payment and delivery and provision for the settlement of disputes by arbitration. The standard contract of the Bombay Rice Merchants' Association is not, correctly speaking, a future contract. It is concerned with shipment and delivery in case of c. i. f. contract or with godown delivery at Bombay, whichever is desired by the seller. Since it is not concerned with futures contract, the transactions are settled privately, the Association simply being concerned with the satisfactory fulfilment of the contractual obligation of the members. In case of ready transactions, they are carried on by oral agreements through brokers on the basis of sample. In wheat trade standard contracts are in use in the transactions with the millowners. These contracts specify a description of wheat to be delivered, quantity, price and origin, as also the type of bags and packing, terms of delivery, refraction tolerated and payment. Although these are mentioned in the contract, the findings of the purchaser in matters of refraction, weight, etc., are final, although in case of difference, the seller has every right to go on the spot and verify them personally. The purchaser has the option to cancel the contract or that part of it which is unfulfilled and to purchase from the market at the existing price such quantity as is undelivered and to charge the difference from the seller in case the purchaser has to pay higher price. In case the seller is unable to fulfil his contract within stipulated period, it may be extended at the discretion of the purchaser. This type of contract is also in vogue with some of the Government purchasing agencies. The standard contracts used in export trade have been analysed in the first volume.

Finance of Marketing

The agencies providing finance of marketing are both old and modern. While the modern agencies are pushing their way forward, the old traditional agencies predominate even now. Among the traditional agencies mention may be made of the village mahajan, the merchants and commission agents, and the shroffs or indigenous bankers.

The village mahajan is a man of small resources and he combines business with his financing activity. He invests his savings or the savings of his relatives deposited with him for financing agricultural operations. It is not possible to give statistical estimate as to how far the village mahajan provides finance to the agriculturist; but it may roughly be said that he is more important than any other agency working in rural India.

Turning next to the merchants and commission agents, it may be said that they are specialised agencies of finance, and are to be found from the assembling of the products upto their arrival in terminal markets. Although we have said that they are specialised agencies of finance, yet many of them are to be found dealing, in addition, in a number of commodities, and very frequently, working as shroffs, making advances and discounting hundis or drafts and bills of exchange. According to some rough estimates, they are responsible for about 80 to 85 per cent. of the financing operations.

The commission agent depends for his working capital mainly on his own pocket; but it is often supplemented by deposits mainly from relatives, friends and other acquaintances. These deposits are not negligible; or while in business season, they are enough according to the requirement, in slack season many firms of good standing are found to refuse them or accept them only at nominal rates of interest. Some of them have however resort to the shroffs for financial assistance which is offered in the form of loans on promissory notes or muddati hundis at varying rates of interest depending upon the standing of the party and condition of money market.

The commission agents have their own clients in different markets, who maintain current account with them on which they get interest at a certain rate per cent. The commission agents working on behalf of clients often receive earnest money which is about 25 per cent. of the value of the purchase. This earnest money is utilised not only for covering any loss due to uncertain factors of risk like price fluctuation but also for meeting incidental expenses of all sorts. This earnest money is however not demanded from

the old customers who have got standing in the market. But while settling the account, the total disbursement of the commission agent is recovered from the client. When the goods are sent by the commission agent to distant markets on their own account, *i.e.*, for commission sale, an advance of 70 to 85 per cent of the value of the produce is drawn against the consignee, which is adjusted when the account is finally settled.

Shroffs or indigenous bankers, belonging to the Marwari, Multani or Sindhi community also play a very important part in the finance of marketing. They are to be found in all the chief urban centres, secondary markets and also in the terminals. The Chettiars of South India are also a powerful and influential factor in the financing of internal trade as also trade in some neighbouring countries like Burma. With the increasing pressure of organised banking that has made some progress in recent years, the indigenous bankers are now taking to trade, in addition to their age-long banking activities. Whatever that may be, one of the main activities of the shroffs is to discount hundis and advance money on promissory notes. Occasionally they grant loans against the pledge of goods stocked and in this there is hardly any important difference between a shroff and a bank.

Shroffs are more liberal in their business than the banks. This is due to the fact that they are in greater know of the business standing, creditworthiness and financial strength of the party concerned and hence can afford to be more liberal without unnecessarily running a risk. Besides, their position is not so delicate as that of the bank, because the latter has to depend on the deposits received from the members of the public and hence being a public institution, it cannot undertake the same risk as is done by a shroff. But now-a-days, possibly due to unfavourable experience, even the shroffs are becoming more and more cautious and although the main security against advances by them is personal, yet, in order to safeguard themselves against possible risks, only hundies having one endorsement are accepted and in special cases endorsements from more than one person or concern are insisted upon in order to reduce the

risk. It is interesting to note that this endorsement is arranged with friends and neighbouring firms for which they charge a nominal fee. For, although apparently the risk may be very great, really it is not in view of the fact that in the Indian trade practice, the inability to honour one's draft is considered as good as the declaration of insolvency and hence would not be liked by the person concerned.

The shroff is a very valuable link in the financial chain and his abolition or extinction would not be liked in any quarter. Even the Central Banking Enquiry Committee considered the question and suggested steps for increasing his efficiency. It was the suggestion of the Committee that those shroffs who agree to operate on purely banking business should be licensed, that associations of indigenous bankers should be formed so as to standardise business practice and that there should be better facilities for discounting and greater co-operation with joint stock banks. While the last two suggestions are sound enough, so far as the first suggestion is concerned, it may be said that purely banking business is not enough to absorb the funds of these bankers and that it is this factor that has forced them to take to non-banking business. Under these circumstances, it should be treated as enough for entitling a shroff to receive license provided he separates his banking business from the non-banking one. In this respect the argument that the shroff likes non-banking business because it provides greater scope for speculation seems to be exaggerated in view of the fact that the adoption of non-banking business by the shroff is only a recent feature, almost forced upon him because of his declining influence in the field of banking.

We have considered in brief the different old agencies in the finance of marketing. A few words may now be said about the modern agencies providing finance of marketing. In this respect mention may be made of banks, grain trade associations and co-operative societies. So far as co-operative societies are concerned, their main activity lies in the field of credit and hence they have little to do with marketing. So far as grain trade associations are concerned in big markets the local grain trade associations or exchanges

finance the storage of some agricultural products out of the sums accumulating in their hands out of the margin money or deposits against future contracts. Since the management of these exchanges are thoroughly acquainted with the business and financial standing of different parties in their locality, they can utilise their funds, at times considerable, in earning interest for the exchanges without at the same time running any great risk.

Among the modern financing agencies, the only mentionable part played is that by the joint stock banks. In a subsequent chapter, this aspect of the question will be considered in details. Only a few words may be said here which are relevant for our present discussion. The banks upto recent times have been following very cautious policy in matters of investment. Now-a-days they are becoming more lenient and providing credit against the security of pledged stocks. Apart from this, the banks also buy and discount hundis or drafts, remit money by telegraphic transfer from one centre to another and in general provide all accomodation necessary for the conduct of trade. Before fixing the credit limit, the bank makes enquiry regarding the business and financial status of the party in question, and according to that fixes the credit limit of the drawer. The smaller firms however find it difficult to obtain credit from the banks direct and hence approach through bigger firms who endorse the papers of smaller concerns. But the advent of the banker in this field is a recent one and even to this day the shroff predominates and works side by side with banks. But as yet there is no close co-operation between these two parts of banking, which is so very essential. Only when the indigenous bankers are short of funds, they approach the banks for discounting some of their papers and obtaining funds. Otherwise these two parts of banking are competitive in nature.

PART II

CREDIT AGENCIES IN INDIA

CHAPTER IV

INDIAN MONEY MARKET

Importance of Money Market

The money market of a country plays an important role in the national economy in so far as it helps the financing of all transactions, domestic and foreign. It is true that the financial operations are entrusted to the banking system but the latter in itself is a part of the money market and is being helped by it in so far as the banks are provided not only with the means in which they can invest their funds in liquid form but also with a reserve from which they can draw help in times of necessity. Not only that; the money market helps the accumulation of capital, provides the government, both central and provincial, with long-term loans and influences the determination of the rate of interest, which is so very vital in the determination of the volume of investment. From all these standpoints, therefore, the money market is an important organ in the national economy.

Definition

A money market is a mechanism through which the short-term funds are loaned and borrowed and through which the financial transactions of a country are carried on. A money market may be conceived in a broad and a narrow sense. In a broad sense it includes the entire mechanism of the financing of business. But in a narrow sense it includes many things and is concerned only with a few standardised types of transactions.

Peculiarities of the Indian Money Market

There are writers who have conceived the money market as a highly centralised organisation. But actually it is not

so. Even in those countries where the central banking system is deep-rooted in their economic structure and has considerable influence on the money market, "a money market is a loosely organised affair with a number of divisions and sub-divisions, each devoted to a particular type of organisation and each constituting a separate market in itself." So far as the Indian money market is concerned, it is the most loosely organised affair and hence has nothing in common with money market in any other part of the world. The very first distinctive feature of the Indian money market that attracts the notice of any casual observer is that there is a sharp line of division between the indigenous part of the money market and the modern part characterised by the joint-stock banks, exchange banks, etc., and these two are functioning side by side more or less independently and on competitive basis. The second peculiarity of the Indian money market is the existence of an institution which till the other day was entrusted with some of the central banking functions, but now has been deprived of most of them, I mean, the Imperial Bank of India. To-day it is the largest joint-stock bank; but it is something more than that and in those places where there is no branch or office of the Reserve Bank of India, the Imperial Bank works as its agent. This is an incongruous element and its favoured position, resulting in greater financial strength, has led to the creation of an unsympathetic attitude of the Indian joint-stock banks towards it. A third peculiarity of the Indian money market is the existence of foreign exchange banks, all owned and managed by foreigners and till recently had nothing to do with the financing of internal trade. This is the most incongruous element and although since the establishment of the Reserve Bank of India they have been subjected to a certain degree of control, yet in most other respects they are as free as before. Not only that; they have huge financial resources which they are now investing even in internal trade finance and have proved to be serious competitors with the Indian joint stock banks. The fourth peculiarity of the Indian money market is that even over the joint-stock banks the control of the newly established central banking institution is not enough.

For, even among them, there are two categories—scheduled and non-scheduled, and the latter are practically outside the control of the Reserve Bank. Fifthly, the Reserve Bank of India lacks in many of the characteristics of a central banking institution. Whatever degree of success it has achieved, it has done so as a Bank of Issue, but not as a Bankers' Bank. Hence it cannot be said that it has been able to fulfil its function and so falls far below the standard of central banking institution in any part of the world. Finally, Indian money market lacks in some of the very essential constituents like bill market, shipping and insurance market and even important commodities market.

Technical Organisation

The technical organisation and function of different money markets differ in view of the fact that each has developed according to the economic needs of each particular region and hence it is not possible to lay down any hard and fast rules of technical organisation and function. Thus in London, before 1914, the acceptance market was the most important but gave way to short-term government security market in post-war years, particularly since the great depression. In European money markets, the first class trade bills have been the most important instrument in the money market. In New York, before 1914, the brokers' loan market and, to some extent, commercial paper market, were the most important but gave way to acceptance market after the first Great War. Further changes were introduced when treasury bills and certificates of indebtedness became the principal instruments of the money market.

The technical peculiarities of the Indian money markets may now be noted. The very first thing that attracts our attention is the inelasticity and instability of the money market. In the busy season there is great demand for money for meeting the requirements of export trade. It is well-known that a considerable part of our jute, cotton, rice, wheat and oilseed and other agricultural products are exported. Accordingly, in busy season when there is a movement of these crops from the upcountry centres to the ports,

there is a heavy demand either for cash or for currency notes for facilitating these movements of crops. The result is that between the busy and slack seasons, there is a wide fluctuation in money market rates. Of course, since the depression of 1929, the fluctuation in the Imperial Bank Rate has not been much, although before this date, the Imperial Bank, being the sole agency for the control of credit, had, in order to protect its own cash reserves, to raise the bank rate to a high level. But owing to the slackening in the trade demand, the Imperial Bank rate remained stationary at 4 p.c. from 7th July, 1932, upto 15th February, 1933, and at 3½ p.c. from 16th February, 1933 upto 3rd July, 1935. After the Reserve Bank of India had been established, it announced its rate at 3½ p.c. which was subsequently reduced to 3 p.c.

The seasonal monetary stringency in India was up to 1921 mainly due to the existence of the Reserve Treasuries. Under this system the Government maintained separate and independent District Treasuries and Sub-Treasuries, in which the funds received by them as revenue were locked up and hence were not available to the banking system "for the reconstruction of credit either in the long-term market or short-term market to the fullest possible extent." While the total volume of currency issued may have been sufficient, money available to the business community was small in view of its being detained in the Treasuries, and the Imperial Bank of India, though entrusted with the function of credit control, could do nothing in this respect, except raising its bank rate for maintaining its own reserve, and this increased the trouble of the money market all the more. In 1921, however, most of the Government balances were transferred to the Imperial Bank with the result that they could be available to the business community when these funds were lying idle. The Indian Paper Currency Act of 1923 empowering the Government of India to issue additional currency notes upto a maximum of Rs. 12 crores in the form of loans to the Imperial Bank against inland bills of exchange maturing within 90 days from the date of issue, the policy of purchasing sterling in India in order to remit to the Home Treasury and the re-introduction of the Treasury

bills by the Government, all were aimed at a reduction of the seasonal stringency. The effect of the establishment of the Reserve Bank of India on the seasonal stringency in the money market is difficult to measure in view of the prevalence of easy money conditions in 1929, which have not altered even during the years of the second Great War.

The second technical peculiarity of the Indian money market is to be found in what has been termed as "confusion and chaos" of money rates. This is to some extent due to the loose structure of the Indian money market, but mainly due to the lack of an organised bill market in this country. It was expected that the coming of the Reserve Bank of India will lead to the development of a bill market, as is the recent experience of central banking development in other countries and thereby it will reduce seasonal stringency and confusion and chaos in money rates. But so far as the development of a bill market is concerned, no important step seems to have been taken. Hence unlike in other money markets, it is extremely difficult to lay down specific relations between different money rates in this country.

As already said, all these troubles of the Indian money market are mainly due to the lack of a bill market and this constitutes another peculiarity in technical organisation. This lack of a bill market is partly due to inadequate supply of bills but mainly it is due to the defective functioning of the money market which, if removed, the number of bills is bound to increase. Thus, *e.g.*, before the coming of the Reserve Bank of India, there was no central bank in true sense and hence the joint-stock banks preferred loans from Imperial Bank against Government security to offering bills for rediscount to another commercial bank which was competing with them. Even if the joint-stock banks could be made ready for rediscounting their bills with the Imperial Bank, the latter could not maintain the same impartial outlook as is demanded of a bankers' bank and hence in the absence of any standard for bills which may be acceptable to the Imperial Bank, the ordinary joint-stock banks could not be sure as to the acceptability of a particular instrument and had to depend on the discretion of the Bank authority. The bills are in themselves defective in view of the fact that

there is hardly any document of title attached and hence it is difficult to know whether a particular bill is a genuine trade bill or a mere accommodation bill. It has been suggested that the Reserve Bank of India should be prepared to buy or discount at its published rate first class trade bills and promissory notes arising out of bonafide commercial transactions. Although the Reserve Bank has been functioning for more than a decade, it may be said that the Bank has not been able to stimulate the development of a bill market so far.

The following bills are in use in the Indian money market:—

(a) Government Treasury bills—Their influence on the Indian money market is negligible. Their distribution is unsatisfactory in view of the fact that at least half the volume of Treasury bills is purchased by the Imperial Bank and the remainder by other big banks, particularly exchange banks. At times this monopolistic domination goes so far that the Reserve Bank has to intervene by purchasing bills on its own account in order to ensure a successful placing of Treasury bills.

(b) Foreign Trade bills drawn in sterling—They are the monopoly of the exchange banks who transfer them to their London office for discount in open market, thereby making the Indian market subservient to the London money market.

(c) Agricultural credit bills which the Reserve Bank of India, under the Reserve Bank of India Act, has been authorised to purchase, sell and rediscount, provided they satisfy certain conditions. But the number of these bills has not increased because of the attitude taken by the Reserve Bank. The only thing that is being done at present is that the Provincial Co-operative Banks are utilised for giving advances to smaller co-operative organisations; but this has nothing to do with the increasing use of bills. The bills of this type will not be popular with the banks unless sufficient arrangement is made for the establishment of licensed warehouses at the principal agricultural centres, of which none exists at present.

(d) Hundi—These are in use in indigenous transactions financed by shroffs.

(e) Inland Trade bills—They constitute a small proportion of the investment portfolio of the banks. In recent years, however, they have shown some increase.

This is the type of bill structure in our non-existent bill market. With this inadequate bill structure and over-cautious central bank, it is too much to expect that a bill market is visible in the near future. In the U. S. A., the establishment of a strong central banking organisation was followed by the development of a bill market. In India the rediscount facilities made available by the Reserve Bank of India are too meagre and the word "approved" bills and securities are often interpreted in an unresponsive manner. The nature ot scrutiny by the Reserve Bank is also not looked with favour. "When accepting a bill the Reserve Bank will expect the scheduled bank concerned to supply the Reserve Bank with continuous information relating to the parties from whom it takes these bills, their credit standing, the line of business in which they are engaged and for which each bill is drawn, their own liabilities so far as known to the borrowing bank from time to time and other relevant data so as to enable the Reserve Bank to maintain a continuous check both as to the soundness of the security and the nature of the transaction to which it relates. The Reserve Bank reserves the right to make an independent investigation of the standing of the party and of the nature of the transaction through any agency available to it." This is really an unresponsive attitude. It is of course true that the Reserve Bank being the lender of the last resort cannot go very far in this respect; but it is equally true that the heavy responsibility of the establishment of a bill market is also placed on its shoulders, and if due to its overcautiousness the bill market does not develop, the Bank should be responsible for that. We are living at such a stage of world economic development in which policy should be guided not by established principles but by exigencies of circumstances, and if circumstances demand greater responsiveness on the part of the Reserve Bank, it must come.

Institutional Organisation

In the above section we have studied the technical organisation of the money market. In the present section we shall study its institutional organisation on the basis of different types of financial institutions engaged in borrowing and lending short-term funds. In the group of lenders come the following: (a) The Reserve Bank of India, (b) the Imperial Bank of India, (c) exchange banks, (d) joint-stock banks, (e) business enterprises, (f) shroffs and money lenders, and (g) co-operative banks. In the list of borrowers we may mention (a) the Government of India, Provincial Governments, semi-governments and public institutions, (b) industrialists, (c) agriculturists, (d) businessmen, (e) stock-exchange brokers, etc.

I. Lenders

(a) The Reserve Bank of India—Under normal conditions, a central bank is to be regarded as the ultimate source of currency and credit; but its actual position varies from country to country. Thus the Bank of England is free to do business with any one but it deals chiefly with bill-brokers and financial institutions. The joint-stock banks hardly borrow from the Bank of England. In the U.S.A., the Federal Reserve Banks extend credit only to the member banks and to a few dealers in bankers' acceptances and government securities. In European countries, the central banks usually carry on business with the public as also with banks through their branch offices. So far as the Reserve Bank of India is concerned, it is a bankers' bank and hence cannot "engage in trade or otherwise have a direct interest in any commercial, industrial or other undertaking". The power of direct discount, in so far as it is given, is limited. Even as a bankers' bank, the sphere of action of the Reserve Bank is limited owing to the heterogenous composition of the Indian money market.

(b) The position of the Imperial Bank in the Indian money market is peculiar. Before the establishment of the Reserve Bank, it was semi-central bank; since then its powers have been curtailed in some directions but extended

in others and today it is the biggest of all joint-stock banks with certain privileges. As a lender, the Bank finances the internal trade to a great extent by discounting hundis from the approved shroffs. The Bank also gives short-term accommodation on promissory notes to a limited extent and at times on the personal security of some of the shareholders. Loans are also granted on the security of produce stored in the godowns of the Bank. It was expected, after the establishment of the Reserve Bank of India, that the Imperial Bank being deprived of its central banking functions and being freed from some of its restrictions would take to the financing of foreign trade; but unfortunately for the Indian joint-stock banks, the Imperial Bank did not follow the uncertain path of financing foreign trade but turned into a severe competitor to the Indian joint-stock banks.

(c) As lenders in the Indian money market, the exchange banks have twofold functions to perform—first, to finance India's foreign trade from Indian ports to the distributing centres in the interior or from the collecting centres in the interior to the Indian ports, and second, the financing of Indian foreign trade from the Indian ports to overseas markets or from foreign countries to Indian ports.

(d) Indian joint-stock banks—Generally, the commercial banks constitute the most important single class of lenders in the money market in all countries. But so far as the Indian money market is concerned, their position is not enviable in view of the existence of the Imperial Bank and the exchange banks on the one hand and indigenous bankers on the other. Even among the joint-stock banks, there are two categories, the scheduled banks and the non-scheduled banks, the former being in direct touch with the Reserve Bank and the latter being not.

The manner in which commercial banks place their funds at the disposal of the money market is not the same in different countries. In England the joint-stock banks put their funds at the disposal of the money market through the bill brokers and discount houses and also through the purchase of Treasury bills and acceptances. In the U.S.A.,

before the first Great War, the brokers' loan market and, to a smaller extent, the commercial paper market were considered as the most important outlets for short-term funds. Since the first Great War, however, these markets have declined in importance for the investment of short-term funds of the bankers and their place has been occupied by acceptance market and also by Treasury bills and certificates of indebtedness which in fact have become the most important outlets. In European countries the principal outlets for short-term funds are the stock exchange transactions and the purchase of trade bills. So far as the Indian commercial banks are concerned, they deal directly with traders by offering short term advances against easily realisable securities, discounting inland bills of exchange and opening cash credits. In bigger towns where there are stock exchanges, they advance large sums against the hypothecation of these securities. Elsewhere, they offer advances against the stocks of agricultural products, piece-goods, stock-in-trade or some other marketable security. The banks also finance the movement of goods to and from Indian ports, from and to upcountry centres, particularly in those places where the branches of exchange bank do not exist. The banks also to a small extent make advances against personal security or against hundis. This sort of direct operation has to be resorted to, because there are no discount houses or bill brokers in India nor any public warehouses which may make personal security or endorsement redundant. We have already seen that banks in England do not have resort to the Bank of England and hence the latter controls the money market through bill brokers. In the U.S.A., the member banks have direct approach to the Federal Reserve System. In India, however, the Reserve Bank, by law, is allowed to rediscount the commercial papers of the scheduled banks—not all papers, but only the approved ones—at the official rate. But their amount is not much. A greater part of the banking system remains outside the control of the Reserve Bank which is a very unsatisfactory position.

The nature of banking organisation also exercises influence on the relationship of commercial banks with money

market. In Europe and Great Britain, since banking resources are concentrated in a few institutions like the Big Five in Britain and the 'D' banks in Germany, which have covered the whole country by a network of branches, these may be shifted from one branch to another according to the requirements of different regions; this also strengthens the banking organisation and makes for an even distribution of the banking resources throughout the money market. The unit banking system in the U.S.A. presents an altogether different picture in view of the fact that the banking resources are scattered and hence while there may be plethora of funds in one part, there may be scarcity in another without any possible remedy. The banking organisation in India presents a different picture. The commercial banking resources in this country are small in comparison to the total resources. The distribution of banking institutions is also uneven. Thus while Bengal, Bombay, Madras, U.P., and the Punjab are on the whole well-supplied with banks, other provinces and the native states are not so. Not only that; some of the centres are already overbanked while others go without any. Indian banking structure upto recent times was one of unit banking type. In recent years the tendency is towards concentration of resources in few hands—not the concentration of old resources at the cost of existing institutions but that of new ones—and the Indian prototype of the Big Five has already come into existence. Besides, in recent years, a number of very big "commercial" banks have been started. Branch banking, rather indiscriminate branch banking is a new feature in Indian banking structure.

The legal status of commercial banks also varies widely. In Britain the dictum that good banking depends on good bankers is true to the word. Every phase of banking activity here is governed by tradition and practice which have the force of law. In contrast, in the U. S. A., and Germany, almost every phase of banking activity is brought under governmental supervision and there are comprehensive legislations in this respect. But then there is nothing to select as between the one system and the other. It all depends on the habit of the bankers. If tradition

and custom are enough to govern the banking system, law is a superfluity. Law is required only where tradition is not strong and bankers speculative. In organised banking in this country, tradition is not very strong. This is due to the late coming of modern banks and is manifested in a number of bank failures from time to time. Upto this time there is no separate banking law in this country, banking business being governed by a few sections of the Indian Companies Act. Since the banking enquiry of 1929, the need for a separate banking law came to be recognised and the bank failure immediately preceding the second great war and also sometime back gave further stimulus. At present a Banking Bill is there before the Legislature.

The business carried on by commercial banks in different money markets differs. This difference is mainly due to the distinction between commercial banking and investment banking. In this respect, it should be noted that no country is following any hard and fast principle. Thus, *e.g.*, in the U.S.A., till recently, the distinction between these two types of banking was almost non-existent and the commercial banks used to invest short term funds into long term business through the Security Affiliates. The evils of this system resulted in a banking crisis and the banking legislation provided for a separation between the two. The same is true of Belgium and Italy. In England and France, the commercial banks are typical commercial banking institutions and they follow the principle that short term deposits cannot be used for long term investment. But in recent years the tendency in England is for the commercial banks to take to long term investment, though not directly, at least indirectly, through the Bankers' Industrial Development Company and Securities Management Trust. In Germany, before the first great war, line of distinction between the two types of banking was non-existent. In the years following the first great war the tendency was for a separation of these two types of banking. In India, the commercial banks are established on British lines and hence investment banking or even mixed banking is non-existent. Thus in the field of industrial finance a gap remains and

the time has now come when under the leadership of the Reserve Bank, the big commercial banks may form an organisation like the Bankers' Industrial Development Company for filling up this gap.

(e) Business Enterprises—In this country the importance of business enterprises as lenders, with the exception of the managing agency system, is not very great. The managing agency system has, of course, played a very important part as lenders. But apart from this, the importance of corporations and insurance companies is almost negligible. Institutional saving is not very great in this country and whatever amount is thus accumulated is invested in the enterprise itself. So far as inter-company investment among concerns under the same managing agency firm is concerned, this has been prohibited under the Indian Companies Amendment Act of 1936. A greater part of the investment of funds ot the insurance companies goes to government securities and the portion available to other fields of business is very small. In other countries, however, the role of the business enterprises as lender has been considerable. Thus in England, the surplus funds of large corporations and insurance companies were used very often for the purchase of acceptances. In the years following the first great war, these acceptances declined in importance and their place came to be occupied by Treasury bills. Since the great depression, owing to the prevalence of easy money conditions, the return from investment in gilt-edged securities declined. Hence these business enterprises began to invest their funds in the form of loans to business concerns and to political bodies. In the U. S. A., the lending by business enterprises is no less great than that in England and was in part responsible for the stock market boom of 1928. These advances were given by business enterprises to bill-brokers and bill-dealers through the banks. But after the banking crisis the banks have refused to do this sort of business and subsequent legislation has prohibited it altogether.

(f) Shroffs and money lenders—They predominate in indigenous business transactions and their link with the organised part of the money market is negligible.

(g) Co-operative banks—whatever little importance they have acquired, they have done in the field of agricultural finance. They are of little importance in our money market.

II. Borrowers

The types of borrowers in the Indian money market have been noted earlier. Leaving aside the government and semi-government bodies, these borrowers consist of a number of enterprises and institutions as also individuals who operate with funds obtained from the money market. The types of borrowers differ from market to market. In London, the chief borrowers are the dealers in bankers' acceptances and Treasury bills and the discount houses. In the U. S. A., where speculative activity is more predominant, stock exchange brokers, investment houses and security and acceptance dealers predominate in the money market. Thus in London, bill brokers and discount houses need funds for financing the carrying of the portfolios of acceptances and Treasury bills. In New York they are needed for purchasing securities. In India, in big towns, a large proportion of advances are made against stock exchange securities. But where stock exchanges do not exist, funds are borrowed either against the security of goods, or against personal security or as cash credit against promissory notes and secured by commodities, shares or bonds.

A few words may now be said about government as borrower of short-term funds. In England, the British Government raise short-term funds by the issue of Treasury bills. In New York, however, short-term Treasury bills and certificates of indebtedness did not play an important part upto 1930, after which their importance has increased considerably. The Treasury bills were first introduced in the money market in India during the first great war for meeting government's disbursements on behalf of the British war office. Since then the device has come to be a permanent feature of our money market. Of course, the purpose of short-term funds has not been the same. Thus in the years following the first great war, they were required

for meeting huge budget deficits and in subsequent years for the repayment of old bills, for conversion of loans, and for current and capital expenditure. During the years of the second great war, they have been used again for the financing of war.

Rate structure

The rate structure in a money market depends in part on the organisation of the money market and in part on the banking tradition. Unlike the money markets in western countries, the money market in India is extremely loose and divided into parts which are more or less independent. The central banking organisation being new, a well-co-ordinated rate structure is too much to expect in the Indian money market. In London the rate on loans at call or short notice stands in a definite relation with the Bank rate which is always higher than the former. Thus the entire money market is controlled by the Bank of England through its control over bill market which has a direct access to the Bank. In New York, it is, of course, true that there is no direct connection between rate on call loans and discount rate, but then the liquidity of the market is not hampered because of the fact that member banks have direct access to the Reserve Banks.

In Indian money market, different rates move in different directions. To take up the different rates prevalent and consider their relation *inter se*, it may be said that the call money rate should have a definite relation with the rate granted on demand deposits, for call money is repayable at the option of the borrower and the lender, and also with the Bank rate. In western countries, call money rate is lower than the Bank rate and is more or less the same as the rate on current account. But in the Indian market, call money rate has no such definite relation; it all depends on the availability of funds. Thus in busy season, it may be as high as Bank rate, while in slack season, it may not be investible at any rate. The Bazar rates for discounting hundis or trade bills have no connection amongst themselves. They vary from market to market and even in different parts

of the same market, according to the status of the indigenous banker, that of the holder of the bill and the nature of the transaction. A difference from 3 p.c. to 10 p.c. is not a mean one. There are a few more peculiarities of the rate structure of the Indian money market. So far as the foreign trade bills are concerned, they have nothing to do with the rate of discount here; for the export bills are discounted in London money market and the import bills are held till maturity. The banks' holdings of stock exchange securities are not huge in any sense and whatever investment is made in them are seldom rediscounted. So far as inland trade bills are concerned, it must be remembered that there are two parts in the money market—indigenous and modern. Of these, the indigenous part is more important. But even to this day it remains outside the control of the Reserve Bank. The borrowings of the indigenous bankers from the joint stock banks are not large enough to make them subservient to the credit policy of joint-stock banks and the Reserve Bank. In so far as the indigenous bankers brought their bills for discount to the Imperial Bank, there was no fixed relation between the official Bank rate and the rate at which they were discounted, the latter being sometimes higher and sometimes lower than the official Bank rate, depending upon the cash holdings of the Bank. In the modern part of the money market, the rate structure is such that it offers no inducement to the bankers for undertaking bill finance. For, since the coming of the Reserve Bank of India, the Reserve Bank rate has remained the same as the Imperial Bank Hundi rate and the money market condition being easy, the market rate for bank loans has remained appreciably lower than the official rate of the Reserve Bank. This being so, the banks do not feel encouraged about bill finance and, at least, about rediscounting the bills. Even if sometimes the money market becomes tight and the banks are forced to rediscount their holdings with the Reserve Bank, the hands of the latter are tied in so far as the latter can rediscount papers coming from the scheduled banks only. Thus when the indigenous bankers and non-scheduled banks remain outside the control of the Reserve Bank and when the exchange banks have resort to the London money

market, the Bank rate, even when it is used, will have only a very limited significance. A well-co-ordinated rate structure requires the subservience of the different constituents of the money market to the central bank of the country. This is all the more corroborated from the fact that although the Reserve Bank rate has remained fixed more or less, the rates in the money market have been fluctuating widely. The situation is not difficult to explain. Since the Reserve Bank rate is higher, not only the bazaar depends upon mutual borrowing, but even "the scheduled banks when in want of temporary accommodation find it less expensive to take recourse to the call market rather than approach the Reserve Bank for funds."

Relationship of Reserve Bank to Money Market

The exact relation of a central bank with the money market depends either on statute as in America and European countries or on the decisions of the board of directors of the central bank. The result of this has been that the Bank of England has been able to undertake transactions such as the purchase of stocks of foreign banks or subsidiary banks and several other domestic and foreign transactions which are prohibited to other central banks by statute. In India, the functioning of the Reserve Bank of India is strictly governed by the Reserve Bank Act and even within the Act, the hands of the Board of Directors are tied because there is a clear indication as to the functions which the Bank may or may not transact. Unlike in England, the functioning of a central bank in all countries, India being no exception, is not kept secret but is published in the form of weekly statements and annual reports of the Board of Directors.

Generally speaking, the control of a central bank over the money market is exercised through two principal weapons—Bank Rate and Open Market Operations. There are other methods of control but have no such universal acceptance. But so far as this country is concerned, there is hardly any instrument of credit control. The rate of discount of the Reserve Bank of India is blunt in view of the

fact that it has within its purview a small range of the money market and even there the scheduled banks, ever since the establishment of the Reserve Banks, have found few occasions to go to the Reserve Bank for rediscount. And so far as the open market operations are concerned, there are two considerations—first, whether the securities market is sufficiently wide, and second, whether it will have repercussion on long-term rate of interest. In both these respects the situation does not seem to be favourable and hence even open market operation remains equally blunt.

Fortunately, however, since the inception of the Reserve Bank there have been few occasions when control over money market has been needed. Hence it is difficult to assess the influence of the Reserve Bank over the money market, particularly over that part which is in direct touch. To be successful, the control of the Reserve Bank should not be limited to scheduled banks but must extend to other parts of the money market as well.

Conclusion

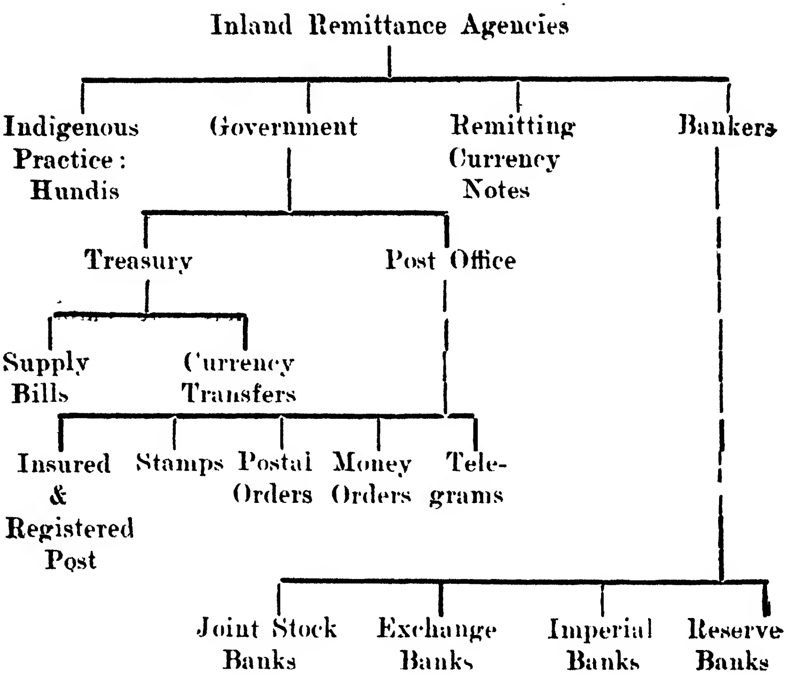
We have made a comparative study of the important money markets, with special reference to India. It must be remembered that the money market is an important organ in the body economic and in the interest of the latter, the money market must be sound enough. Upto 1935 our money market had been extremely weak because there was no central bank to guide; that deficiency is no longer there. But the functioning of the Reserve Bank so far has done little to strengthen the money market. It may be excused on the plea of comparative newness of that institution; but that does not solve matters. In a dynamic world the central banking institution should not keep aloof but rise upto the level that circumstances demand, if necessary, at the cost of traditional principles, and be a good guide.

CHAPTER V

INLAND REMITTANCE FACILITIES

The importance of cheap, convenient and safe inland facilities was emphasized by the Hilton-Young Commission in the following Words: "In any scheme of banking reform that may be planned, we trust that due emphasis should be laid on the provision and extension of cheap facilities to the public, including banks and bankers, for internal remittance." This insistence was as true as it was essential. The reason for this is that in our country, all the above three requirements of cheapness, convenience and safety are not satisfied. It may be safe to send money through post office but it is not cheap; the factor of cheapness may be satisfied if the services of the banks are availed of; but in the interiors where large funds are required either for the movement of crops or for other business purposes, such facilities may not be available or available only inadequately and so on. This is not healthy for trade, particularly so because it tells upon the competitive efficiency of businessmen. In our country the available remittance facilities are a combination of ancient and modern practices. Some of these are in vogue for centuries and are still treated as convenient and cheap by the business community while others are modern. In recent years, however, with the expansion of commercial banks and their branches in the commercial centres, a sort of fusion between the old and the new methods of remittance is visible. Some years back the indigenous business did not take the banks with favour; but that prejudice has considerably disappeared.

In the present chapter we shall consider some of the methods of inland remittance and try to indicate how far they satisfy the above requirements. The following indicates some of the existing agencies for inland remittances:—



It has already been pointed out that Indian mercantilism had developed its own organisation and hence own methods of remittance, both inland and foreign. The instrument used for the purpose was Hundi, the usages and practices governing which, however, varied from one part of the country to the other. In its own circle, the Hundi is as much a negotiable instrument as a cheque or a bill of exchange but generally unlike the latter two, it does not come within the purview of the Negotiable Instruments Act, except when there is a conflict in usage or where the clear indication is given that the legal relations between the two parties shall be governed by the Act.

Remittance by Hundi is not the same in volume in all trades. In some trades, remittances may be frequent and excessive; but in others, as in wheat trade which is balanced in nature, only a small portion of the total value of the produce is required to be remitted from one centre to another. Details regarding hundis have been given in my *An Intro-*

duction to Banking. Suffice it to say here that for remittance purposes, the darshani hundi is in use. It is by far the most important instrument of credit for the adjustment of trade accounts between different markets. There are two methods: the consignee may purchase a darshani hundi payable at the consignor's centre or the consignor may draw on the consignee and discount the hundi in his own market or with some local banker. Where banking facility is not available, the documents may be forwarded for collection to some reliable firm at destination. In some cases where no trade activity is involved but funds are simply to be remitted from one place to another, even then the darshani hundi is used. The sender obtains a hundi from the local merchant on payment of the sum of money and forwards it to his own creditor or payee in the other place who obtains money on presentation of this document to the branch or agent of the issuing concern.

Another practice which was very common but is gradually disappearing is that of sending coins of small denominations and even silver rupees to the purchasing centres for jute, cotton, etc., where the sellers had a special liking for silver coins. In recent years, however, the practice has declined, partly due to the decline in the silver contents of the rupee, partly due to the coming into use of paper currency of small denominations and partly due to the more organised nature that our trades are having.

Remittance of currency notes by halves was another crude practice very much in use where remittances of bigger amounts were essential. The practice was however discouraged, though not prohibited, by the Government by the Currency Notes (Refund) Rules of 1921. The consensus of opinion of the business community, as expressed before the Bengal Banking Enquiry Committee, was that it was a mistake on the part of the Government to amend the Rules. In their opinion, the system of note-cutting was advantageous and till the banking organisation had expanded, the facilities to obtain refunds in respect of the lost half of notes should be reintroduced. With increasing banking facilities, however, this demand has gone down in importance.

Among the organised agencies for inland remittance are the Government and the banks. The Government has provided remittance facilities in more ways than one. Before the closing of the mint in 1898, the mint could be used for the purpose. For, under an open mint, the public had approach to it. This method has been stopped since 1898. Another agency for the inland monetary remittance is the Government Treasury. The primary function of the Treasuries is to aid the transactions of the Government; but for facilitating inland remittances, they often sell to the public supply bills and currency transfers, drawn upon other Treasuries, provided the latter have sufficient funds. The latter are always telegraphic and in even thousands of rupees with a minimum limit of Rs. 5000/-. The former are in even hundreds of rupees with a minimum limit of Rs. 1000/-. The charges are the same in either case, *viz.*, ⅛ p.c. for amounts below Rs. 10,000/- and 1/16 p.c. for amounts of Rs. 10,000 or over. Only the cost of telegram has to be paid for currency transfers. The charges are the same as in case of the Imperial Bank but much lower than those of the post offices. Under the old scheme, the extent of remittance of funds through government agency was as follows :—

Compiled from the Reports on Currency and Finance, 1935-36 to 1939-40. Figures excluding Burma. In lakhs of Rupees.

Year	Movement within the provinces by sale of Supply Bills and Transfers to the Public.	Transfer of Funds effected by the Public between Provinces.
1935-36	256	415
1936-37	408	436
1937-38	360	415
1938-39	313	401
1939-40	485	501
1940-41 (first half)	174	191

Apart from the Treasuries, in the absence of a central banking institution, certain remittance facilities were also provided through the Imperial Bank of India. Under its charter, The Imperial Bank was required to afford facilities for inland remittances. Under its agreement with the government, all Treasury balances were to be entrusted to the Imperial Bank wherever it has got a branch office and the duty of assisting the public by giving facilities for the transfer of funds between places where it has branches or a local head office, at rates not exceeding those laid down by the Controller of Currency devolved on the. Bank. Where there was no branch of the Imperial Bank, Currency Telegraphic Transfers and Supply Bills were issued to the public by the government at the latter's Treasuries in accordance with the prescribed rules.

The above method of inland remittance implied an interlacing of government with business finance, the link between the two being the Controller of Currencies. In the words of the Bombay Banking Enquiry Committee, "By transfer of cash from the currency chest (which is maintained in almost every Treasury and important Sub-Treasuries) to the Treasury and *vice versa*, transfer of funds is effected from one Treasury to another, the actual remittance of coins or currency notes being reduced to the minimum. When surplus funds are deposited in the currency chests, an intimation to that effect is sent to the Deputy Controller of the Currency, who sanctions a corresponding transfer of money from the currency chest to the Treasury balance at some other Treasury which need funds or from the currency chests to the public account of the Imperial Bank, thus releasing more money for the use of the banking and commercial community.........whilst giving facilities to the commercial public for inland transfers of funds, it affords the best means of transfering government revenue from the collecting centres to the provincial headquarters."

The rates charged by the Imperial Bank for such transfers were as follows:—

To the general public—Telegraphic Transfers: One anna per cent plus Telegram charges. Demand drafts: One anna per cent.

To joint stock banks—A concession rate of half an anna per cent for sums of Rs. 15,000/- and over when the amount is payable to a bank only. Banks remitting funds to private individuals or firms must pay at the rate fixed for the public.

Remittance Transfer Receipts are given free of charge to Co-operative Societies and Banks for Co-operative purposes only.

A change in inland remittance facilities has been introduced with the coming of the Reserve Bank of India. The Reserve Bank is responsible for the maintenance at government Treasuries and Sub-Treasuries as well as at its offices, branches and agencies of sufficient stocks of notes and coins for meeting the requirements of the government as also for providing reasonable remittance facilities to the public. For the purpose of these remittance facilities, all branches of the Imperial Bank and Government Treasuries and Sub-Treasuries in India and Burma having currency chest facilities are regarded as the agencies of the Reserve Bank and are required to extend facilities to the banks and the public at rates specified by the Reserve Bank with the approval of the Central and Provincial Governments.

A new scheme of remittances in India and Burma has been introduced with effect from the 1st October, 1940, with a view to standardising and extending the existing facilities for the remittance of funds. Under the new scheme, concession rates of remittances have been extended not only to the public and the scheduled banks but to those non-scheduled banks and indigenous bankers who fulfil certain prescribed conditions and are included in the approved list. Another important change introduced is in connection with the instruments for remittance. Thus Supply Bills, Remittance Transfer Receipts and Currency Telegraphic Transfers are replaced under the new scheme by Bank Drafts, Reserve Bank of India Government Drafts and Telegraphic Transfers respectively. The new rates for

different classes of remittances are given in the table below:—

	Up to Rs. 5,000/- Rate per cent.	Up to Rs. 5,000/- Minimum charge Rs. as. p.	Over Rs. 5,000/- Rate per cent.	Over Rs. 5,000/- Minimum charge Rs. as. p.
Govt.—Extra Provincial* ...	1/16	0 4 0	1/32	3 2 0
General Public ...	1/8	0 4 0 for drafts and mail Transfers. 1 0 0 for Telegraphic Transfers.	1/16	6 4 0
Scheduled Banks†	...	...	...	...
Other Remittances by Scheduled Banks ...	1/16	1 0 0	1/32	3 2 0
Approved Non-Scheduled Banks and Indigenous Bankers ...	1/16	1 0 0	1/32	3 2 0
Co-operative Banks & Societies ...	1/16	0 4 0	1/32	3 2 0

Telegraphic Transfers, Bank Drafts and Mail Transfers between places where the Reserve Bank has its own offices, or is represented by its Imperial Bank Agencies having Currency chest facilities, will be issued without limit, but the issue of Telegraphic Transfers and Bank Drafts from and to places where the Reserve Bank is represented by

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*Intra Provincial Remittances are made free of charge.

†Certain special facilities have been given to Scheduled Banks and Provincial Co-operative Banks for transfers between accounts maintained with the Reserve Bank or its agencies.

Treasury Agencies will be subject to the following restrictions:—

	Rs.
At or on a Sub-Treasury	5,000
At or on a Treasury (not being a sub-Treasury) except on the Reserve Bank ...	25,000
At a Treasury on the Reserve Bank	Without limit.

The effect of this change was that "the public, the trade and the banks are utilising the facilities afforded under the new scheme to an increasing extent, and that other forms of remittances through the Post Office, by messengers, etc., are dwindling except in interior tracts lacking in banking facilities." (Report on Currency and Finance 1940-41). The following figures are in support of above:

(*In lakhs of Rupees*)

Period Half Year Ended	Telegraphic Transfers		Drafts & Mail Transfers	
	Number	Amount	Number	Amount
31. 3. 41.	27489	19116	394735	7136
30. 9. 41*	25403	17208	475305	7935
31. 3. 42*	27194	18650	514773	9213

*Excluding Burma.

Under the new scheme, the scheduled banks, as noted above, have been granted certain facilities in respect of remittances. A scheduled bank is entitled to remit money by mail or telegraphic transfers between the accounts kept by its offices, branches, sub-offices and pay offices at an office, branch or agency of the Reserve Bank in British India and Burma as follows:

(*i*) (*a*) an amount of Rs. 10,000 or a multiple there of, between its accounts at the offices and branches of the Reserve Bank, free of charge;

(b) once a week an amount of Rs. 5,000 or a multiple thereof, to the principal account which it maintains with the Reserve Bank from any place at which it has an office, branch, sub-office or pay office, and at which there is an agency of the Reserve Bank, free of charge;

(c) other remittances to its principal account subject to a charge of 1/64 p.c. and also subject to minimum charge of Re. 1/-; and

(d) other remittances between accounts maintained at the Reserve Bank or its agencies:

Up to Rs. 5,000	1/16 p.c. (minimum Re 1/-)
Rs. 5,000 & Over	1/32 p.c. (minimum Rs. 3/2/-)

(ii) In addition, telegraphic transfers and drafts in favour of third parties are issued, subject to the limits on drawings on Treasury agencies, at the following rates:

Up to Rs. 5,000	1/16 p.c. (minimum Re 1/-)
Over Rs. 5,000	1/32 p.c. (minimum Rs. 3/2/-)

Telegram charges are charged in addition.

Some of the non-scheduled banks who are on the approved list are also granted similar facilities whereas the rates for general public, subject to certain minima, are 1/8 p.c. for remittances upto Rs. 5,000/- and 1/16 p.c. for remittances above that amount, the corresponding rates for approved non-scheduled banks are 1/16 p.c. and 1/32 p.c. respectively. Some of the non-scheduled banks as are on the approved list must be companies registered under the Indian Companies Act, must be doing business in British India in accordance with the provisions of the Indian Companies Act relating to banking companies and must have a minimum paid-up capital and reserves of Rs. 50,000/-.

Although costly, the role of the post office in inland remittance agencies is not less important. The vastness of the country, the linguistic barrier in which Hundis may be drawn, their non-recognition in cases where the parties are not thoroughly known or connected, the lack of banking facilities in the interiors and the illiteracy and simplicity of the people, have all contributed to the popularity of the

post office, no matter whatever the cost. A considerable volume of remittance is effected through insured and registered post, but it is impossible to determine the amount accurately. For, the declared value of remittances is in some cases less than the real value. In smaller remittances, postage stamps and postal orders may be used. But their amount is not much.

By far the most important method of remittance through post office is by money order. Even the value payable system is connected with it. Before 1880, the work of issuing and paying money orders was performed by the Government Treasuries. Bills of exchange were issued by one Treasury upon another for a sum not exceeding Rs. 150/- at a commission of 1 p.c. In the whole of India there were only 283 offices of issue and payment. The greatest inconvenience of the system was that the remitter had to make his own arrangement for sending the bill of exchange and the payee had to arrange for receiving payment at the paying Treasury. The transfer of money order work to the post offices in 1880 could not be done without opposition; but later on the merits of the system came to be recognised. At first the system adopted was very much elaborate. The money order could not be sent by the office of issue directly to the office of delivery where the payee resided but had to be remitted through what was called an office of preparation, *viz.*, the head office controlling the office of delivery. Besides, the payee was required to receive cash at the office of payment as before till the German System of paying money orders at the houses of the payee was adopted in 1886. The limit of Rs. 150/- was however retained, although the new system was quite unlike the old, inasmuch as the paying Treasury could not possibly know the amount it would be called upon to pay, whereas the money orders were carried through the post office which could withhold delivery until sufficient funds were obtained. In 1889 the maximum was raised to the present limit of Rs. 600/- and at the same time the limit on the number of money orders that could be daily issued by one remitter in favour of one payee was removed. Telegraphic money orders were issued in 1884 and revenue and rent money orders in 1886.

The linking of the post office services with business through the value payable system has not only increased the profits of the post office but also helped business. The system was introduced in 1877. Under this, the post office not only undertakes to deliver the parcel to the buyer but also to collect the price from him for a small commission. The possibility of this line of business is very great, particularly in a country like India.

We have noted above the role of the Imperial and Reserve Banks in the inland remittance facilities. A few words may now be said about other banks. So far only the joint stock banks had been in the field. Now even the exchange banks are taking more and more to the financing of upcountry trade and hence to the remittance of money from one centre to another. The common instruments for the purpose are bank drafts, cheques and telegraphic transfers. The minimum bank charge is 4 annas per cent if the draft required is for a small sum but the rate of commission is less on large amounts and may be as low as 6 pies percent according to the amount of the draft and the position of the bank's funds.

A few words may now be said about the comparative advantage of the different methods of remittance. In the indigenous trade practice, hundi is the most convenient instrument in so far as it is no respector of many of the formalities that are connected with modern banks. But its difficulty is that it can only be used when the issuing concern has branch or agent at destination. If the custom governing hundi be standardised, and if it obtains recognition from banks, it will satisfy all the three principles laid down above. In those centres where banking facility is available, it is very convenient, cheap and safe. As already noted, banks usually charge 6 pies to 4 annas per cent for issuing drafts payable at other centres. The banks discount hundis usually at 1 p.c. to 1½ p.c. over the bank rate. The discounting charges levied by indigenous bankers are not the same but vary according to the status of the drawer and may be anything upto 4 p.c. above the bank rate. The average cost of remittance by hundi may be taken at about 1 anna per cent though of course premiums

and discounts are charged according as there is greater or less demand for making remittances to a particular centre, their limits being generally governed by the cost of making remittances by bank drafts in places where banking facilities are available. The post office satisfies the requirement of safety and convenience but not cheapness, which is equally, nay, even more important in business. Hence it is resorted to by businessmen either when small sums have to be remitted or when no other remittance facility is available or when the payee is illiterate and does not know the use of hundi or cheque or draft. For other remittances, *e.g.*, of those sending money to their families living at a place far away from them and similar others, the services of the post office are very valuable.

CHAPTER VI

BANKING: COMMERCIAL AND CENTRAL

The Indian banking structure is of the loosest type and finds no parallel elsewhere. Not only in the variety of institutions but also in the variety of banking practice, it is a type. There is not only a combination of indigenous and modern, but also one of native, foreign and semi-native, semi-foreign. For long, there was no central banking institution for guiding and controlling the money market and the control of currency was vested in government while credit control was with the Imperial Bank. Now, for the last one decade we have got a central bank, but it is not so much a bankers' bank and lender of the last resort, as a banker to the government and a bank of issue. It is to the study of this peculiar banking structure that the present chapter is devoted.

The importance of banking in the present day commerce need not be emphasized. When production was carried on on a small scale and business was limited, organised credit agencies had no role to play. In fact, the credit agencies are the result of present-day commercialism. Hence the greater the co-ordination of the banking structure, the greater the convenience to trade.

Commercial Banking—Indigenous & Modern

In our country, the indigenous banker is the most important link in the banking chain. In the indigenous credit structure, there are, broadly speaking, two categories: money-lenders and indigenous bankers. Money-lenders, again, may be professional money-lenders, either rural or urban, including itinerant money-lenders, or non-professional money-lenders, such as, land-owners and agriculturists, merchants and traders, and other casual money lenders who are persons pursuing various occupations and at the same time lending out their surplus money. The numerical distribution by provinces of money-lenders and

indigenous bankers as given by the Central Banking Enquiry Committee is as follows, although in recent years their number and volume of trade seem to have declined under stress of provincial legislations. The following figures are therefore very rough.

I. *Provincial Distribution of Money-lenders*

Province	Number.
Madras	No Information.
Bengal	45,000 (estimated at 90 p.c. of the total of 50,000 roughly shown under "Bank Managers, money-lenders, etc." in the census of 1921).
Bombay	20,000 (estimated, including indigenous bankers).
U.P.	No Information.
Punjab	55000 (estimated number of those who depend solely or in part on money-lending, including 19000 agricultural money-lenders.)
C. P.	43000 (roughly according to the census of 1921 but not including the malguzars, big cultivators and numerous government servants and others who do moneylending.
Assam	No Information.
Bihar & Orissa	100000 (estimated number of persons conducting moneylending business in rural areas. Besides, there are about 700 shroffs and urban money-lenders paying income tax and a large number, not estimated, who do not pay income tax.)
Delhi	100 (indigenous bankers and moneylenders paying income tax in 1928-29.)
Ajmer-Merwara	17 (indigenous bankers and money-lenders paying income tax.)
N.W.F.P.	657 (Do.)

II. Provincial Distribution of Indigenous Bankers

Province	Number.
Madras	No figure is given; the communities that do banking business are the Nattukkottai, Chettis, the Multanis, the Marwaris, the Kalladai-Kurichi Brahmins and the Komaties (Vaisyas).
Bombay	20000 (estimated including money-lenders).
Bengal	Number not ascertained; but it is stated that there are only a few indigenous bankers. Number is decreasing.
U. P.	250 (estimated number of indigenous bankers who are willing to receive deposits; the number of modern indigenous firms is 7.)
Punjab	66 (according to information obtained from income tax officers; distributed over 11 districts; in 18 districts there is not a single indigenous banker.
Bihar & Orissa	100000 (estimated number of persons conducting the moneylending part of banking business. Besides, there are about 700 shroffs and urban money-lenders paying income tax and a large number, not estimated, who do not pay income tax.)
Central Provinces	There is only one indigenous firm which habitually receives deposits as a matter of ordinary business.
Assam	No information.
Central Areas	29 in Ajmer-Merwara, 43 in Delhi, and 29 Hindu bankers in N. W. F. P., besides a large number of Muslims. These figures are however not reliable.

The indigenous banking practice will be noted in a subsequent chapter. Suffice it to say here that the indige-

nous banking practice has been discussed in my *An Introduction to Banking*. The indigenous banker is responsible for a considerable part—though not exactly about 90 p.c. as estimated sometime back—of our inland trade finance and provides a connecting link between the banks, on the one hand and the vast trading community on the other. He buys hundis either directly from traders or from smaller shroffs with his own money. It is only when he is short of funds that he seeks the aid of organised banks by rediscounting those documents. The literature on the merits and defects of the indigenous banking is too exhaustive to need recapitulation. But it is sufficient to say that with all his defects he has a definite place in our banking organisation. In the words of Sir S. N. Pochkhanawala, "The fault lies not so such with the mahajan as with the indigenous banking system itself which has not been organised on scientific lines; and the remedy should therefore be sought in remoulding the system to suit presentday conditions rather than in trying to do away completely with the much-maligned mahajan."

The need for co-ordinating the old with the new banking system is very great. It attracted a considerable part of the thought of the Central Banking Enquiry Committee which recommended that those indigenous bankers who are ready to drop out the non-banking part of business and to maintain proper accounts and abide by certain conditions should be included in a list of ' scheduled banks,'' to be distinguished from scheduled joint stock banks. For, so long as the vast portion of India's banking and credit machinery represented by indigenous bankers remains outside the organised part of the money market, it is impossible for the Reserve Bank of India to exercise full control over the money market and hence cannot be anything more than a central bank of issue. The Reserve Bank itself prepared two schemes respectively for effecting this co-ordination, the first providing for indirect link through the scheduled banks and imposing stringent conditions in case of direct link and the second scheme being slightly lenient. But they have not found acceptance with the indigenous bankers; for, while, on the one hand, the combination of trading with

banking is the result of inadequate banking business, on the other, the suggestion regarding the taking of deposits and giving wide publicity to accounts is not acceptable to them. It should be noted that while the Reserve Bank of India cannot sacrifice all the banking principles of safety in order to bring the indigenous bankers within its fold, yet at the same time it must be somewhat lenient in its attitude and adjust its working to the existing situation. In business, there is nothing hard and fast; everything is to be modified by circumstances. For this purpose, if the indigenous bankers cannot but take to non-banking lines, the Reserve Bank should be satisfied if they agree to keep the two accounts separate. It should also be the duty of the Reserve Bank and other organised banks to see that the banking business of indigenous bankers increase so that they can neglect non-banking business. Thus they may be used as agents for the collection of bills and cheques, etc., by the Reserve Bank and joint stock banks. It is too much to say that the speculative habits of indigenous bankers induce them to take to business; rather it is the insufficiency of banking business that is responsible for this state of affairs. And the more they are cornered by the organised agencies, the greater the tendency of separation. It should be realised by the Reserve Bank that indigenous bankers being what they are, the modern banking standards cannot be applied to them all on a sudden, and if they are to be brought within the fold of the Reserve Bank, a change in attitude, a relaxation in policy, a flexible outlook on the part of the leader of the banking system is called for.

The most incongruous element in our banking structure are the exchange banks which were started with the object of financing foreign trade and doing exchange business, obtained monopoly of this business and of late has entered the field of financing the internal trade of this country. Practically all the countries of commercial importance are represented in this country by their own exchange banks with the result that our own banks, with limited resources, have not been able to enter this field. The incongruity of the exchange banks in our banking structure arises out of the fact that these exchange banks are having their head

offices, and some of them, even their principal business, outside India, and are dependent on them for their funds and are controlled therefrom, thereby nullifying the control of the Indian central bank. They influence the Indian money market without being controlled by the latter. Besides, the policy of these banks has successfully kept the Indian firms outside the field of foreign trade of this country and encouraged the outflow of raw materials and inflow of finished products. The weak position of our joint stock banks has all the more facilitated their functioning in this that they have been able to attract deposits from the members of the public here, which have been utilised against our interest. This open door policy came in for a good deal of criticism in the hands of the Central Banking Enquiry Committee. But what to speak of the more drastic measures suggested by the minority of the committee, even the most lenient steps recommended by the majority for the control of the exchange banks have not yet been adopted. The granting of commercial privilege should be based on the principle of reciprocity. Thus in the U. S. A., the foreign banks are debarred from receiving deposits within the country and the field of their activity is specially defined and limited. Even in England, the foreign banks are not allowed the rediscount facilities. India has however been following an open door policy in this matter and our Reserve Bank has not any effective control over these foreign institutions, which our allegiance to their own central banks. Not only that; these institutions are offering unjust and monopolistic competition to the Indian concerns aspiring to do foreign exchange business. Thus under the Rules of the Exchange Banks' Association, Indian banks desirous of selling on London through certified brokers, have mostly to pay a higher brokerage. It is hightime that the activities of the exchange banks which are spreading to the interiors be restricted altogether and even in the field of foreign trade finance, restrictions be imposed on them on the basis of reciprocity. In recent years, an increasing number of Indian concerns attempted to take part in the exchange business, but met with organised opposition. According to the information published in the *Eastern Economist*

(4th January, 1946), "at the beginning of this year, about 20 Indian banks were on the list of the authorised dealers in foreign exchange, besides the exchange banks. Of the Indian banks, few had direct agency agreements in New York and the majority of them were carrying on business through the Indian offices of the foreign exchange banks in India on the basis of a share in the commission on the exchange business and in some cases share in the earning of interest, the margin being large enough to allow the exchange banks liberal earnings. It is reported that the exchange banks wanted to cut out Indian banks from the field of foreign exchange and the Bombay Exchange Banks' Association passed a resolution that no member should part with any portion of the commission and that there should be no rebates or repayments to the Indian banks and the agreement should be terminated. In the new Banking Bill, there should have been provisions for controlling the activity of exchange banks; but that field has been left untouched.

A few words may now be said about the Indian joint stock banks. In the first place, they are late-comers in the field of commerce. Early attempts at the establishment of joint stock banks were frustrated by the cotton boom of 1865 and the fall in the exchange value of the Rupee. The first impetus came during the days of the Swadeshi movement but the bank failures in subsequent years placed them for some time on uncertain grounds. The result of this has been that the part of the banks in the financing of Indian trade and industry has remained a limited one. Secondly, the Indian joint stock banks being organised on British model have kept aloof from providing long-term finance, and have maintained too cautious an attitude. Thirdly, the field of exchange business is practically outside their control. For, the exchange banks are older institutions and, there being an open door policy, they came and consolidated their position within this country without any difficulty. Fourthly, in the field of internal trade, they have several competitors of which the indigenous bankers are the most important. After the establishment of the Reserve Bank of India, even the Imperial Bank has turned

its attention to this aspect, while the exchange banks are gradually entering the field of internal trade finance. Fifthly, the organisation of joint stock banks is not a strong one. The weakness of internal organisation due to the existence of many uneconomic units as also to the tendency to excessive branch banking and the lack of any organisation among themselves have made it difficult for them to face competition and unforeseen contingencies. Finally, the control of the central banking institution even over this part of the banking structure is not uniform. For, in the first place, while the Reserve Bank exercises direct control over the scheduled banks, it has practically no control over the non-scheduled banks, its relation with them being advisory in character. And secondly, some of the scheduled banks have grown so big that in course of time they may even threaten the Reserve Bank by their growing resources, as was the case in England in the years following the first great war.

A few words may now be said about the wartime banking in India. The first noticeable feature of the wartime banking is the growth of banking institutions. The process had started even three years before the war and continued during the war. Not only the number of banks but also that of branches increased during this period. This tendency in India was in marked contrast with the tendency abroad where due to the scarcity of manpower, a large number of institutions had to be closed down. India however saw a boom practically for the first time after the great depression. This, followed by an enormous increase in the volume of currency, assisted the process, and the deposits, particularly demand deposits have gone up very high. This development is in line with that in other countries. The cash position of the banks has throughout the period remained favourable. This item—including both cash in hand and balances with the Reserve Bank—has, of course, witnessed seasonal variation; but, on the whole, the situation has remained satisfactory and "with the exception of first nine months of war when there was some little decline in cash position, the proportion of cash and balances with the Reserve Bank to total deposits has always been

above 12 p.c., while for the greater part of the war period, it has been considerably above that." So far as the volume of advances and bills discounted are concerned, the tendency, inspite of seasonal ups and downs and various other dislocating factors, has definitely been in the downward direction in proportion to the growth of the volume of deposits, though mostly it was above the pre-war figure. In England, however, it has definitely gone down partly due to the reduction in the volume of exports and imports and the curtailed movement of produce and holding of stocks, and partly due to the entry of the government in the field of industrial and business finance. Among the banks' investments, the premier rank came to be held by the government securities. As during the first great war, so also during the second one, the banks have played a major role in war finance and "their deposits increased by the amount of their subscription to the government loans." Unlike in the first great war, the cash reserves of the banks suffered and lagged far behind the rapidly accumulating deposits. It was this fact and its repercussion on the future position of banks that led to the amendment of the Companies Act as a result of which the capital structure and reserves of the banks have to be maintained at a certain minimum proportion.

The future of banking is difficult to indicate; for, it is closely linked up with the future economic and monetary policy. In the war period, the banks had increased their deposits mainly due to the inflationary policy, and owing to the restricted commercial investments, had thrived on investments in government securities. In the post-war years the government will have bad days if the funding of government debt results in deflationary effect. Thus when the government will be a competitor in the money market and the business demand for funds will increase, these, side by side with the policy of curtailing the volume of currency, will result in stringency in the money market and affect the banks adversely. Much of the banking prosperity depends partly on an expansionist economic programme and partly on the funding of government loans.

The Imperial Bank of India is a peculiar type of joint

stock bank and is a result of historical circumstances. From its inception upto the coming of the Reserve Bank, it had been functioning as a controller of credit without the right of note issue. Even as a banker's bank it was not above partiality and was competing with other joint stock banks. Nor was its bank rate a weapon, as with other central banks for the control of credit. With the establishment of the Reserve Bank, the Imperial Bank is deprived of some of its privileges, while the restrictions under which it had been working were to a great extent removed. It was expected that with its enormous resources and banking experience, it will enter into the field of exchange business which has so far remained a monopoly with the exchange banks, and will thus give a lead to the Indian joint stock banks in that line. Instead of doing that, it has taken to the internal trade finance and with its enormous resources and privileged position has proved an undesirable competitor to the Indian joint stock banks. Even in this field the Imperial Bank could have rendered enormous services to our banking structure provided it had the will. As Sir S. N. Pochkhanawala pointed out, "The Imperial Bank could offer a lead in matters of setting up an Association of Indian banks with the avowed object of providing a united platform for the discussion and solution of banking problems of common interest and could help better understanding and greater amity among all banks."

The question of banking reform is engaging wider attention to-day. Banking being the principal wheel of commerce, its importance for the financing of industry and trade will be enormous. Reform, however, is a word which has a very wide connotation. It does not simply mean the reform of banking law; for, law is of least importance in business; it also means a reform of structure, of operation and of personnel. The defects in banking law are too well-known. The need for a separate banking legislation was emphasized long ago, but it did not materialise. Even the present Banking Bill, to criticise it in general, is not as comprehensive as is essential for our purpose. Its provisions do not impose any restriction on exchange banks nor do they in any way increase the control of the Reserve Bank over other

parts of the money market. But much more important than the reform in banking law is the reform in banking structure, operation and personnel. Some of the defects in structure have been noted above and need expert consideration. In banking, where movement in line is of utmost importance, a hybrid structure, combining many incompatible elements most of which are independent and beyond any control of the guiding institution and are affecting the economic life in their own way, is extremely dangerous. There is no legal binding over these incongruous elements nor has the tradition developed, as in England, so as to bring them together working in harmony for the general interest of the economy. For proper co-ordination, the question of bringing the indigenous bankers within the organised money market is as important as the question of restricting the activity of exchange banks to port towns for the financing of external trade only and that too on a basis of reciprocity. The reform in banking operation has been considered in *An Introduction to Banking*. No less important is the reform in banking personnel. For, good banking depends on good bankers. Banking being in its transitional phase from infancy to youth requires expert guidance at every stage. But the supply being inadequate, at present we have to depend much on raw hands. This aspect of the question should receive careful attention of those who are the leading lights of the banks. A regular course of apprenticeship in big banks for prospective banking personnel, mainly reserved for those youngmen who have specialised in commerce courses, may solve this problem to a great extent. For this purpose, a regular contact needs be established between commerce colleges and big banks.

Functioning of the Reserve Bank of India.

At present there is no country of commercial importance that has not established a central bank of its own. For, it is realised that a central banking institution under modern conditions is absolutely essential. It is of course true that their constitution and range of statutory powers have varied from one country to another. But one thing is certain and

it is this that central banking is a "new art" and its functions, whether developed by tradition or imposed by statute, are more or less the same. The central banking structure has, in all countries, two aspects, political and financial.

One of the most accepted principles of central banking is that politically it should be independent and this is sought to be maintained by the election of directors by private shareholders or by commercial banks. The arguments for and against this independence have so far been very strong. Nowadays, however, under planned economies, the hand of the government is always there over the entire economy, of which the central bank is the heart. But then if the central bank becomes a department of the government, there is every danger and likelihood of discontinuity of policy. For, every change in the administration will lead to a change in the policy of the bank. Hence while political influence cannot altogether be eliminated under the changed circumstances of to-day, it is at least desirable that the directors should be the "representatives of, but not for, various sections of the community," and be appointed for fairly long terms. This will lead to a continuity of policy and maintain the independence of the board as far as practicable. The Reserve Bank of India is a shareholders' bank; but since the shares are scattered throughout the country, and the rate of dividend limited under Section 47 at 3½ p.c., it is uncommon to find the shareholders taking any interest in the working of the Bank, even if they could do so. The Board of Directors consists of eight directors elected on behalf of shareholders on the various registers, and four directors nominoted by Central Government. Besides, the Governor, two Deputy Governors and one government official nominated by the Central Government will be on the Board. Apparently therefore the distribution of seats in the Board between shareholders and Central Government will be on fifty-fifty basis. Of the eight members representing the Government, of course, six are voting directors. The Government seems to be over-represented. For, with one of the elected directors voting with the Government and the Governor exercising his casting vote would result in the victory of the Government. The powers of the Governor seem to be too much.

For, unlike the meetings of the Board of Directors every week in case of the Bank of England, in India the law requires a minimum of six meetings per year. Thus the elected members have fewer opportunities to influence the policy of the Governor and the next meeting may take place when a particular policy has been carried out. The Governor being a nominee of the Governor-General would hardly have any independence; for the latter may both remove him from office or reappoint him as he pleases. This state of affairs while making the Governor a dictator over the Board places him as a mere tool in the hands of the Government. The independence of the Bank is thus sacrificed. A large number of events in recent years, *e.g.*, the expansion of currency according to the requirements of the Government, sale of gold on behalf of the Government, etc., indicate that in many matters the Bank has to submit to the Government.*

In its financial aspect a large number of items have been recognised as essential for central bank. The most important of them are as follows: (1) Full control over the currency system; (2) maintenance of proper relation of note and deposit liabilities to its gold and/or foreign exchange reserves; (3) banker to the government; (4) bankers' bank; (5) investment of its funds in short-term and self-liquidating securities; and (6) pursuit of accepted operations for the control of the money market.

To take up first the currency system, it may be noted that the Indian currency system is a type by itself and its total volume is more or less arbitrary. For internal circulation, we have got rupee notes and rupee coins, the latter being equally legal tender. Before the establishment of the Reserve Bank of India, the currency was controlled by the Government. But whereas there is a statutory limit as to the volume of note-issue, there is no such limit in case of rupee coins, the state having fullest discretion as to their volume. So long as the mint was free, the public could influence the currency situation by taking resort to the mint; but that possibility does not exist after 1893. Not only that;

*Recently the Government has decided to nationalise the Reserve Bank of India after October 1948.

the silver content of the rupee has also been changed from time to time according to the requirement of the Government. In regulating the volume of currency, both notes and coins, the government has been influenced not so much by internal needs of trade or seasonal currency requirements as by the exchange position. This anomalous position continues even to this day. After the establishment of the Reserve Bank, the monopoly of note issue has passed over to it, though one-Rupee notes and rupee coins are even now issued by the Government, the coins requiring no reserve or cover nor there being any limit to their total volume. It is only through the Reserve Bank that they are issued to the public. The need for an elastic currency system in an agrarian economy like that of ours resulted in the adoption of the proportional reserve system; but its effect may be nullified if there is an equivalent contraction in rupee coins by government.

Based on the British model, the Issue and Banking Departments of the Bank are separated and the assets of the two Departments are kept distinct. The assets of the Issue Department consist of gold coin and bullion, sterling securities, rupee coins and rupee securities, of which not less than 40 p.c. must under law consist of gold coin, gold bullion or sterling securities, provided that the amount of gold coin and bullion is not at any time less than Rs. 40 crores in value. With the previous sanction of the Central Government, however, the Bank may hold less than 40 p.c. of the assets for limited periods provided that it pays a specified tax on the deficiency. Some modification had to be introduced in the above for meeting the wartime requirements of the Government.

The Reserve Bank was also entrusted with certain exchange obligations with a view to maintain the stability of the external value of the Rupee. Under Section 40, the Bank was obliged to sell sterling for immediate delivery in London at a rate not below 1*s*. 5 49/64*d*. for a Rupee. The Bank was similarly obliged to buy sterling at a rate not higher than 1*s*. 6 3/16*d*. for a Rupee. Moreover, the Bank had the obligation of meeting the exchange requirements of the Government for which purpose it generally purchased

sterling from scheduled banks. Even in this matter the hands of the Reserve Bank were tied under the Government of India Act, 1935. For, the rate at which the Reserve Bank was to purchase and sell sterling was already fixed, no matter whatever was the natural rate. The Indian demand for the depreciation of the Rupee had long been neglected. Now however the Rupee has been de-linked from sterling and it has now become an independent currency and may be linked with the monetary unit of the International Monetary Fund. Hence the Reserve Bank of India Act has been amended with a view to enable the Bank to buy and sell the currencies of all countries which are members of the I. M. F. In place of sections 40 & 41 of the Reserve Bank Act, a new section has been substituted as follows:

"The Bank shall sell to or buy from any authorised person who make a demand in that behalf at its office in Bombay, Calcutta, Delhi or Madras, foreign exchange at such rates of exchange and on such conditions as the Central Government may from time to time by general or special order determine, having regard so far as rates of exchange are concerned to its obligations to the I. M. F. provided that no person shall be entitled to demand, to buy or sell foreign exchange of a value less than two lakhs of rupees." Section 17 of the Act is also amended so as to enable the Reserve Bank to buy and sell securities issued by the government of any country outside India which is a member of the I. M. F. The rate of exchange is no longer fixed by the Act but is left to the Central Government who is to determine the rate subject to such conditions as it might deem necessary consistent with the obligations under the I. M. F."

Turning next to the Banking Department of the Bank, on the liabilities' side, the principal items are capital, reserve fund and deposits from the Government, banks and others. Capital and reserve fund require no comment. The latter was provided by the Government in the form of Government securities in accordance with section 46. The deposits from the Governments have shown a large increase since 1938 because the provinces have undertaken to main-

tain certain minimum balances with the Reserve Bank in terms of the agreements entered into with them. The bankers' deposits comprise mainly of the deposits lodged by the scheduled banks and undergo fluctuation with changes in money market conditions. On the assets side of the Banking Department, the most important items are notes and coins, bills purchased and discounted, balances held abroad, loans and advances mainly to Government, and investments. Of all these the most important single item is the "Balances held abroad," *i.e.* held on account of the Reserve Bank by the Bank of England. Among the bills purchased and discounted, the only important one is the Government Treasury bills. Trade bills have not figured to any important extent because of the prevalence of easy money conditions. The investments of the Bank consist of rupee securities of the Government of India and the U. K. securities and include those delivered to the Bank by the Central Government in respect of its reserve funds.

The Reserve Bank is also a banker to the Government. In accordance with section 21 (1) the Bank has entered into separate agreements with the Central and each of the Provincial Governments, setting out the terms on which it has undertaken to transact their banking business. Since 1st April, 1937, each of the Provincial Governments opened separate accounts with the Reserve Bank. They agreed to maintain certain minimum cash balances with the Reserve Bank and to meet any temporary deficits in these balances either by obtaining ways and means advances from the Bank or by issuing their own Treasury bills. Under the new arrangement, subject to certain restrictions, the provincial Governments can borrow on the security of the revenue of the Provinces and several provinces have done so. The Report of the Reserve Bank on Currency & Finance gives details of these transactions.

The Reserve Bank is also a bankers' bank and hence a lender of the last resort. Before the establishment of the Reserve Bank, the position was extremely hopeless. The Imperial Bank was there but it was neither a bankers' bank nor a lender of the last resort. The Reserve Bank has been established to fill up the gap. But after a decade of its

working, it cannot be said that the Bank has attained any mentionable success. "It is still evolving its own organisation and it does not seem to have travelled far beyond the stage of establishing contacts." It has already been pointed out that the indigenous bankers who constitute the more important part of the money market have been left out of the control of the Reserve Bank. But even in the organised part of the money market, the Reserve Bank's control is not uniform. The first line of demarcation is to be drawn between scheduled and non-scheduled banks. Of these the latter do not belong to the category of member banks and therefore have little to do with the Reserve Bank. The Reserve Bank is simply "expected to give guidance to all the banks that make up the banking system, and does in fact readily give its advice to non-scheduled banks asking for it." The scheduled banks constitute a heterogenous group and the Reserve Bank's relation with each one of them is not uniform. So far as the Imperial Bank is concerned, with its enormous resources and close association with the Government, it is the agent of the Reserve Bank where the latter has no branches. The exchange banks are all incorporated outside India and hence though working in the Indian money market they are practically outside its control. Even among the Indian scheduled banks, there are two categories, the Big Five and the rest, the difference depending on the volume of deposits and extent of branches.

The inclusion of a bank in a schedule depends on its attainment to the prescribed capital and reserve position. But the mere fact of inclusion of a bank in the schedule does not give any guarantee that it will continue to be sound or stable and "its fitness to be retained in the schedule is liable to be tested at Government's instance, should Government have reason to believe that its affairs have deteriorated to such an extent as to make it *prima facie* unfit for retention."

Once included in the schedule, the bank has certain rights and obligations. Thus every scheduled bank has to maintain with the Reserve Bank a balance not less than 5 p.c. of its demand and 2 p.c. of its time liabilities, the primary purpose being to enable the Reserve Bank to exer-

cise some measure of control over the banking system. In some countries, as in U. S. A., the experience shows that the distinction between the two types of liabilities is often blurred over. But here the distinction has so far been maintained at least in accounting purposes. In return for this obligation, the scheduled banks would for the first time find a source providing currency in emergencies. Thus the Bank will provide financial accommodations in the shape of rediscount of eligible bills or loans and advances against eligible securities. This aspect of the function of the Reserve Bank has remained non-operative. Advances to member banks on the pledge of approved securities are little; but the discounts by the bank are even less. As already explained, this is due to the easy money conditions prevailing throughout this period. The real test for the Reserve Bank as a bankers' bank, a lender of the last resort, has not yet come. But the banking crisis that came in the middle of 1938 indicates that the reserve requirements for the member banks are not sufficient to enable the Reserve Bank to control the banking system and the relation between the Reserve Bank and the scheduled banks even is not a close one. The reserve requirement is ornamental, not effective.

Finally the central bank must pursue accepted operations for the control of the money market. Accordingly, the Reserve Bank has been given the powers usually possessed by central banks for exercising control over the credit and banking systems of the country. Accordingly, the Reserve Bank publishes bank rate at which it will discount eligible papers and can undertake open market operations. In this respect the position of the Reserve Bank has been explained in the following words, "The actual control is however limited as the scheduled banks are not, as a rule, large borrowers from the Reserve Bank. The Reserve Bank can exercise greater control when the banks approach it for financial assistance, as they may in that case be prepared to subject themselves to voluntary inspection. Such occasions, however, have been rare and as the inauguration of the Reserve Bank has coincided with an era of cheap money conditions, loans and advances to, and discounts for, scheduled banks have never reached a high figure. Among other

methods by which the bank can to some extent control the monetary and banking system may be mentioned appropriate changes in the amount of Treasury bills offered, in the amount of sterling purchased and in the amount of money in circulation, but these methods are comparatively less effective and of limited applicability. Thus although the Reserve Bank has been entrusted with most of the powers generally given to a central bank, its actual control is limited by the peculiar character of the Indian Monetary and banking system." (Functions and Working of the Reserve Bank of India).

The future success of the Reserve Bank depends partly on the attitude taken by the Reserve Bank itself. A rigid attitude on its part, a pursuit of traditional central banking principles without reference to the existing conditions inside the country, will never bring the leadership of the Indian money market to the Reserve Bank and unless the conditions in the money market are brought under perfect control, any talk of economic planning is useless. Therefore, not only for its own sake, but also for the sake of the entire economy, a more flexible attitude on the part of the Reserve Bank would be welcome.

CHAPTER VII

NEGOTIABLE AND OTHER INSTRUMENTS

The meaning of the term 'Negotiability' may be made clear with the help of an illustration. If a bicycle or wrist watch is stolen, and if it is sold, the buyer, even though he pays for it, cannot retain it against true owner. But the same cannot be said about a currency note, a cheque or a bill of exchange, unless there is a definite indication to the contrary. Thus, in general, these are negotiable instruments and they are governed by the Negotiable Instruments Act, 1881. Before the passing of this Act, however, the negotiable instruments in India were governed, as in England, by the *law merchant* according to which no person could sue or be sued unless he appeared as party by name or description on the face of the document. The present Indian law is founded on English law with minor changes to suit the particular circumstances. It should, however, be noted that the law is not a comprehensive one. For, after all, it governs a particular form of contract, the law of contract being a much wider statute. Therefore, the general provisions of the Indian Contract Act remain in force except in so far as the Act of 1881 has abrogated them. There is another limitation to this Act. The Act clearly mentions that it is concerned with bill of exchange, cheque and promissory note; it does not refer to any other instrument, and even in the limited field, the Act does not deal with the transmission of rights in them by operation of law or by transfer *inter vivos*. In the case of other documents, they may be negotiable instruments if the transferee is a bonafide holder for value, capable of suing in the court of law in his own name and the document possessing the characteristic of transferability like cash by delivery by the custom of trade. Thus the debentures of the Bombay Improvement Trust are promissory notes within the meaning of the Act whereas share certificates, inspite of their passing from hand to hand with blank transfer deeds or a mate's receipt, are not negotiable instruments.

Negotiability is of three types—by custom, by statute and by estoppel. Custom is a sufficient factor; but custom must be prevalent in the country where the transaction has taken place, and must not be in vogue only in the country where the instrument may have originated. The strength or prevalence of custom is difficult to be stated in concrete terms; hence it is enough that the custom prevails and is known to both the parties. Some documents like the bill of exchange, cheque, promissory note including currency note, though negotiable by custom originally, have now acquired negotiability under statute. Legal recognition by statute has been also accorded to a number of instruments which previously were negotiable by the custom of the trade. Certain instruments may again acquire negotiability by estoppel. An instrument which is not in its nature a negotiable instrument may acquire this quality by estoppel in the hands of the holder for value provided on its face that instrument purports to be transferable by delivery or by endorsement and delivery or provided that the former holder represented it to be such. This instrument is not negotiable in every case; it is such only in those cases where the particular party has taken it as such. In the case of debentures, if the usage of stock exchange recognises them as negotiable instruments transferable by mere delivery, they will be treated as such and the court will recognise them. A few words may now be said about the different negotiable instruments in use in this country.

Cheque

According to the Negotiable Instruments Act of 1881, a "cheque is a bill of exchange drawn on a specified banker and not expressed to be payable other than on demand." To be more clear, a cheque is a written order addressed to a banker by one of his customers and requiring the banker to pay on demand a stated sum of money to a person named or to bearer. Cheque, however, is not legal tender and payment by cheque may be refused without prejudicing one's claim to be paid in legal form. This is due to the fact that the element of confidence is the prime factor in the

case of a cheque—confidence in the drawer having an account with the banker and that in the banker. The two main characteristics of the cheque are that it is an unconditional order and that it is payable on demand. If the payment on the document depends on the fulfilment of certain conditions, it cannot be regarded as a cheque. Payment on the cheque is to be made on demand, no matter whether the words 'on demand' actually occur on the cheque or not. The cheque again should contain a date which must be such as not to make the cheque stale, ante-dated or post-dated. At times for the sake of business convenience, the date is to be filled in by the payee, as also the amount, a practice which is not objected to by the banker. Other characteristics of a cheque are that it is drawn by a customer on specified banker, a feature which distinguishes it from a draft. The payee must be certain; in other words, cheque must be payable to or to the order of a certain person or to bearer. In the case of a bearer cheque, it passes from hand to hand without the endorsement of the payee or of any subsequent holder. In the case of an order cheque, however, the endorsement of the holder is required.

By endorsing the cheque, the payee becomes the endorser and the person in whose favour it is endorsed becomes the endorsee. In this way, by endorsements, it may pass from one hand to another. In the case of a bearer cheque, of course, endorsement of the payee is not required. But it is advisable to insist on it, as a condition for accepting the cheque; for, it would be the evidence of his having been a party to the transaction. Whatever that may be, a payee should present a cheque for payment or collection to the bank as soon as he receives it or as early as possible. For, if it circulates too much, and is then presented to the banker, by that time, the account of the drawer may have been exhausted or some other contigency arisen.

Endorsement may be of various types. The most common form is blank endorsement which makes the cheque as good as a bearer cheque. It consists simply of the signature of the holder. In the case of special endorsement, however, the name of the endorsee must be given. In the case of restrictive endorsement, the further transferability

of the cheque is prohibited and such a cheque cannot be treated as negotiable.

The endorsement must be in order. For this purpose the bankers have developed a number of rules which must be followed by the customers. Some of these rules may be stated in brief. Thus the signature endorsed on an order cheque is to correspond to the name written on the face of the document. If a wrong spelling is given, the endorsement should be in the same way. The payee is, however, at liberty to add his correct name in bracket. Complimentary prefixes and suffixes and other courtesy titles as also titles, honours, ranks, etc., should not form a part of the endorsement. When the payee cannot write, thumb impression or marking of a cross is regarded as sufficient, though this form of endorsement is to be attested by a witness. Cheques made payable to more than one person must be endorsed by all, unless one of them is authorised duly to do so. Unmarried women are to endorse by writing their own name followed by surname. But when she is married and receives a cheque in her maiden name, she should write her name followed by her present surname, adding her previous surname at the end with the word *'nee'*. If, however, she is described by the name of her husband, she should endorse by writing her own name followed by her present surname and the words, "wife of so and so", or "widow of the late so and so". The above are some of the cases where the payee himself is endorsing. But cases may arise when one has to endorse on behalf of another person or concern which is more important in business, as in the case of a partnership or a joint-stock company. In the case of a partnership, since all partners have equal rights any one of them can endorse on behalf of the partnership. This is not so in the case of a joint-stock company; here only the person or persons duly authorised by the company can endorse in strict accordance with the instructions given by the directors, and they will have to add their designations. Even where private individuals are concerned cases may arise when one has to endorse on behalf of another. But in that case he must be duly authorised to do so and must indicate that he is endorsing on behalf of such and such person.

What is the position of the banker in case the endorsement is forged? A banker is relieved of liability in case of forged or unauthorised endorsement provided he has paid amount in good faith and in ordinary course of business. The same is, however, not true in case the signature of the drawer is forged. For, it is required that the banker should know the signature of his customers and he is liable if he pays any amount containing a forged signature of the drawer. Forging also takes place in the amount of the cheque by clever alteration and insertion of words and figures. Precaution should be taken against this in as many ways as possible, *e.g.*, by using machines, by writing figures as closely as possible without leaving any gap in between, by marking across the cheque 'under Rs. ten' or as the case may be. But of all the precautions devised against forging, crossing is the most effective and largely in use.

A crossing consists of the name of a bank written across the face of the cheque or of two parallel lines drawn across it with or without the words '& Co' between them. In case of a crossed cheque money is not to be paid over the counter but the bank must credit the amount to the credit of a customer or pay it to another bank which claims the amount on behalf of its own customer. The authority to cross a cheque is given either to the drawer or to the holder of the cheque and any holder may turn a general crossing into a special crossing. Crossing to two banks is not, however, allowed except when the cheque is crossed to one bank which cannot collect it himself but crosses it again to his collecting agent. The liability of the banker increases much more in the case of crossed cheque; for here he has to act in strict accordance with the instructions given, any exception bringing liability on the banker.

As regards crossing, the Negotiable Instruments Act has been amended in April, 1947 which makes the provisions in the law relating to the crossing of cheques applicable to bank drafts. Thus the Amendment has sought to regularise the growing practice of crossing bank drafts and it affords to bankers the same protection in respect of crossed bank

drafts as is available to them under Sec. 131 of the Negotiable Instruments Act in respect of payments received in good faith for cheques crossed in their favour.

Crossing may be general and special. In the case of general crossing, only two parallel lines with or without the words '& Co.' will occur. In the case of special crossing, however, the name of the bank to whom crossed is mentioned within or without parallel lines. Of the two, the latter is more safe and definite, for, here a person having no claim will find it difficult to obtain payment except through the bank mentioned therein and the bank will not collect the amount if the payee does not happen to be its customer. The transferability of a cheque is restricted if the words 'Account Payee only' are added to it.

What are the courses open to the holder of a cheque with regard to it and in what circumstance can a banker refuse to honour the cheque? He may, when it is an open cheque, carry it to the banker himself or send it through a bearer and receive the amount in cash. Or, he may pass over the cheque to his creditor in settlement of a debt or sum due to the latter. Or, he may deposit the cheque with his banker for collection, the amount being credited to his account. Of course, the most common form is the last one. For, a businessman would not like to receive cash and keep it idle with himself; there is other inconvenience as well. For, when a cheque is received from a distant debtor on a bank having no branches here, it is difficult for him to go to the particular place simply for satisfying the intention of receiving money in cash. The settlement of a debt by a cheque received from abroad is also not very common in view of the fact that the two amount will only rarely be in accord. Besides, there is risk in too much transference of a cheque and consequent delay; for, by the time the cheque is presented to the banker, the drawer may have exhausted the account. Hence the deposit of a cheque with the banker is more convenient and less risky. In fact, the collection of the customers' cheques is a part of the ordinary business of the banks. For the sake of convenience in the collection of cheques, the clearing house organisation has been devised.

If the cheque is in proper order and the customer's account sufficient, the banker can have no objections in honouring the cheque. In certain cases, however, when the above general rule is not adhered to, the banker is authorised not to honour the cheque and to return it after indicating in brief the reason for such course. Some of these exceptions are as follows:

(1) Out of date—applies to stale cheques, when the drawee banker requires verification by drawer before payment is made.
(2) Refer to Drawer—when there is no fund or no sufficient fund or when the cheque is not provided for.
(3) Endorsement Irregular.
(4) Account closed.
(5) Cheque post-dated.
(6) Words and Figures differ.
(7) Alteration requires initials.
(8) Second endorsement required.
(9) Signature differs.
(10) Crossed two banks.
(11) No account at this bank.
(12) Effect not cleared—where cheques or other orders have been paid in by the drawer of the returned cheque but have not yet been collected.
(13) Instruction not to pay or payment stopped.
(14) Drawer Dead.
(15) Mutilated cheque—Distinction is, however, made between voluntary mutilation with a view to destroy the cheque and accidental mutilation or mutilation due to excessive handling. In case of doubt, the safe course is to refer the matter to the drawer.
(16) After notice of an act of bankruptcy on the part of the customer or on receipt of an order of the court garnisheeing his account.

The use of cheques in India was till recently almost negligible and although in recent years the use of cheques has increased to some extent, it does not compare favour-

ably with its use in western countries. A number of reasons are responsible for this. For some of them the banks, for others the customers and the government are responsible. Thus, till recently, the number of banking offices was inadequate and even now, though their number has increased, some areas are overbanked while others are suffering for want of them, particularly in distant interiors. In England, it is not uncommon for banks to send a cashier and clerk to attend a country market for the day to receive and pay out cash. No exact counterpart of this practice has been met with in India. The drawing of the cheque in a foreign language when most of our businessmen are ignorant of that has been another obstacle. In recent years some of the banks have agreed to honour cheques signed in Indian language provided the customer agreed to indemnify against any possible forgery. Only very few of them allow cheques to be drawn in Indian languages. This practice seems out of date when in the banks even the responsible posts are being held by Indians. The bankers can easily honour cheque drawn in Indian languages without demanding any indemnity from the customer. Another cause of unpopularity which no longer holds good is that the people did not acquire for long the necessary confidence in the stability of the banks and realise the advantages of this form of currency. Facilities for the encashment of cheques were not very satisfactory and a lot of time was wasted to cash a cheque. Finally, the stamp duty on cheques acted as an obstacle upto 1927.

With a view to remove these unsatisfactory conditions and increase the cheque habit of the people, the Central Banking Enquiry Committee made a number of recommendations some of which remain to be fulfilled even to this day. The Committee writes. "Government can assist materially in spreading the cheque system in rural areas by accepting freely payment of land revenue by cheque ....some of the Provincial Committees have suggested that local bodies should similarly encourage the use of cheques. We recommend that all municipalities and other local bodies should be asked to consider the feasibility of making and accepting payment by cheque on account of

salaries to some of their employees and other items of receipts and disbursements. ....Merchants and traders should also be encouraged by banks to use cheques as far as possible instead of currency in the settlement of transactions in upcountry markets in connection with the movement of crops." The use of cheques should also be allowed in the case of savings bank deposits.

A few words may now be said about the clearing house organisation. The importance of a clearing house in the banking system does not need any emphasis. It is an essential part of the banking system. The principal clearing houses in India are situated at Calcutta, Bombay, Madras, Karachi, Cawnpore, Lahore and Delhi. The Imperial Bank, the Exchange Banks, most of the English banking agency firms and the more important local joint-stock banks, are on the list of members of the clearing house. In Bombay, clearing is effected in the premises of the Reserve Bank of India. In Calcutta, before the coming of the Reserve Bank, the premises of the Calcutta Clearing Banks Association were situated in the head office of the Imperial Bank building and final settlements were effected by means of cheques drawn upon the Imperial Bank. After the establishment of the Reserve Bank the final settlements between clearing banks are effected through the Reserve Bank, but the premises continue to be located in the same place. In Madras also the Reserve Bank of India is in charge of clearing house arrangements. In the remaining places, it is the Imperial Bank who is in charge of it. The membership is restricted to the existing members and if any fresh member is to be enrolled, the approval of the existing members is to be taken. This conservative outlook has placed the smaller banks and even the newly started big banks into a difficult position, so far as the function of clearing is concerned. Their position became worse because of the attitude taken by the clearing banks. For, previously, these clearing banks used to collect cheques, drafts, etc., on non-clearing banks without charging any commission. But with the rapid increase in the number of banks, the work increased and so the clearing banks either refused to collect such cheques, drafts,

etc., or charged a commission for this. In 1939, with a view to remove these difficulties and grievances, the Metropolitan Banking Association was formed. This is the only institution of its kind in India and from the information available it seems that the institution is making good progress. Similar difficulty, as in Calcutta, is being faced in the Bombay money market as well. Although no parallel institution has been organised till now yet pressure from various sources has forced the Bombay Clearing House to charge uniform rates for the collection of cheques, drafts etc, on non-clearing banks, which was not a practice so far. In the interest of the banking system, a more rational attitude on the part of the clearing banks is essential.

Bill of Exchange

The Indian law has defined a Bill of Exchange as an instrument in writing containing an unconditional order signed by the maker directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument. Thus, like a cheque, a bill of exchange is an unconditional order in writing. But unlike a cheque it is addressed by one person to another, may be a banker, but generally on another businessman and may be either payable on demand or on the expiry of a particular period—in case of time bills, days of grace, unless otherwise specified, are granted according to the custom prevailing; not so in the case of cheques. Unlike a cheque or a demand bill, time bill needs acceptance of the party. The responsibility of the drawer of a cheque differs from that of a bill. For, the drawer of a cheque is not discharged of his liability even if there is delay in presenting the cheque. In the case of the bill, however, if there is delay in presenting it, the responsibility falls on the banker. If a cheque is dishonoured, there is no need for a notice of protest being given; for the liability of the drawer is first rate and in any case he must meet it. In the case of a bill however, if it is dishonoured by non-acceptance or by nonpayment, this is to be noted and protested according to the procedure prescribed.

A bill of exchange may be either inland or foreign. An inland bill is one which is both drawn and payable within the country. A foreign bill may however be one which is drawn abroad and payable in this country or drawn in this country and payable abroad, or both drawn and payable abroad but negotiated in this country. Unless a bill is a demand bill, it is to be presented for acceptance which is nothing but the drawee's assent to the order contained in the bill. Before acceptance, the bill is technically known as a Draft. Acceptance may be of various types. In general acceptance the drawee gives his unqualified assent, and that is the one acceptable to the banker. If the assent given is a qualified one, qualified either by the imposition of any condition or as to the time, place and amount or qualified due to the acceptance by a few out of many drawees, in that case the holder may refuse to accept it and may treat the bill as if it has been dishonoured. If the banker takes a qualified bill, he does so on his own initiative and the drawer and the endorser, if any, previous to this acceptance, may renounce their liability. Time bills may be of various durations depending either on the understanding between the parties or on the custom in that trade. In the case of time bills, three days of grace are generally added to the time granted for payment. If the last day of grace falls on some holiday, the bill becomes due on the previous business day.

As in the case of a cheque, so also in the case of a bill, the holder has several courses open to him. He may retain the bill till it matures and then present it either himself or hand it over to the banker for collection, or he may part with the bill either by discounting it with the banker or by negotiating it with some private individual. Negotiation of a bill implies its transfer in such a way as to constitute the transferee the holder of the bill. A bill payable to the bearer is negotiated by mere delivery; but a bill payable to order is negotiated by the endorsement of the existing holder. Endorsement may be in blank when it consists simply of the signature of the endorser. It is called a special endorsement when the name of the person in whose favour it is endorsed is given in it. The endorsement may be conditional *i.e.* subject to the fulfilment of certain conditions

or partial as to the amount. If it is a restrictive endorsement, the further transferability of the bill is prohibited. When the endorser wants to limit or negative his liability, he may do so by giving a qualified endorsement in which he writes the words "Sans recours" or "without recourse to me." When the drawer or endorser wants to waive some or all of the duties of any future holder of a bill, say, if he wants to waive the notice of dishonour so far as he is concerned, he can do so by giving a facultative endorsement. Finally, a few words may be said about accommodation bill. In this case the bill is drawn, accepted or endorsed without the value having been received or given for it. This is therefore a fictitious bill but is drawn merely for the purpose of lending the benefit of one's signature to the holder of the bill. Thus A may have helped B by giving his signature on the latter's bill as a result of which the bill becomes acceptable to the banker which it was previously not. When the money falls due to the banker and the bill is presented to A for payment, A must pay the amount. But by this time, B must have put A in funds with which the latter will meet the demand of the bank. The advantage to B lies in the fact that in the meantime he can use the funds which on his own credit it would have been impossible for him to get. Since such bills are not genuinely trade bills, if the banker comes to know of them, they are not accepted for discount. But in fact there is nothing on the fact of a bill which can enable the banker to distinguish accommodation bill from a genuine trade bill.

A bill is dishonoured either by non-acceptance or by non-payment. In such a case, unless the title of the holder is defective, he at once acquires a right to immediate payment by the drawer or by the endorser; and the greater the number of the endorsers, the greater the safety of his position. But if the dishonour is due to any negligence on his part, *i.e.* if he fails to present a demand bill within reasonable time or if he fails to present a time bill duly, on the expiry of the stated period, the drawer and the endorsers can renounce their liability. The position of a banker in regard to a bill, as contrasted with that in case of a cheque, is therefore not an enviable one. When the bill is dis-

honoured, the banker would do well to have this fact noted by the Notary Public either upon the instrument itself or upon a slip of paper attached thereto. The banker may, of course, without having it noted, protest directly, but it is better to have the fact noted and then proceed to protest; for, in the latter case, the fact of dishonour is authenticated. The noting must be made within a reasonable time and must specify the reason, if any, of dishonour, the date and the signature of the Notary Public, an official appointed by the Government for the purpose. It is done by making a minute on the bill or on the paper attached therewith which contains the following details:—

(1) The fact of dishonour;

(2) The date of dishonour;

(3) The reasons, if any, given for such dishonour;

(4) If the instrument is not expressly dishonoured the reason why the holder treats it as such;

(5) Notary's charges; and

(6) Notary's Initial.

Then the Notary takes the document to the drawee or acceptor for acceptance or payment, as the case may be. If the drawer or acceptor persists in dishonouring it, the Notary prepares a minute specifying the particulars mentioned above. This minute is called Noting. But mere noting is not enough; for it is no evidence of the presentment and dishonour of the bill unless the Notary gives evidence in support of it. This evidence is the Protest and is given either on the instrument itself or on a copy thereof if the original is not available. The protest contains:—

(1) The instrument itself or a literal transcript of the instrument and of everything written or printed upon it.

(2) Names of the persons for whom and against whom the instrument has been protested.

(3) A statement that payment or acceptance or better security, as the case may be, has been demanded of such person by the notary public; the terms of his answer, if any, or a statement that he gave no answer or that he could not be found.

(4) When the note or bill has been dishonoured, the place and time of dishonour, and when better security has been refused, the place and time of refusal.

(5) The signature of the notary public making the protest; and

(6) In the event of an acceptance for honour or of a payment for honour, the name of the person by whom, of the person for whom, and the manner in which, such acceptance or payment was offered and effected.

Protesting in case of foreign bills is of particular importance; for if the matter is to come to the court of law, protest is essential. The law in many countries demands it and no other evidence of dishonour is admitted except the protest. Protest is however not essential in case of foreign promissory notes. In the case of inland bills, however, protest is not so very essential, though for authentic evidence of dishonour, it may be useful and so taken as an act of discretion. When a bill has been noted and protested for non-acceptance, and is not overdue, a person not already liable upon the bill may intervene and accept it for the honour of any party to the bill. In the same way, if the bill is dishonoured by non-payment, a person may intervene and pay the bill for the honour of any party liable upon it. In any case, protest for non-acceptance must precede acceptance for honour and protest for non-payment must precede payment for honour. The object of this course of action is to save the credit of all or some of the parties liable on the bill and to prevent legal proceedings being taken against them. The intervenor for honour, after payment for the bill is made, has the right to recover the amount of the bill from the party for whose honour he has accepted and paid for the bill and all parties before him.

The Indian Stamp Act prescribes the duty that is to be paid on bills, both inland and foreign, and it varies according to the value of the bill. In case of demand bill in this country, however, as contrasted with that in England, no stamp duty is required.

If the acceptor of a bill finds it difficult to meet the bill on the expiry of the stipulated period, he may apply to

the holder for the renewal of the bill, which he will accept. If the holder is satisfied in the credit of the acceptor, he may allow the renewal though he will be doing so at his own risk.

Promissory Note.

A promissory note is an instrument in writing containing an unconditional undertaking signed by the maker, to pay a certain sum of money to, or to the order of, a certain person, or to the bearer of the instrument. Like a bill of exchange, a promissory note is also the result of credit transactions. When the oral promise to pay is not considered as sufficient by the creditor, the promise of the debtor is converted into writing and is governed by the Negotiable Instruments Act.

The difference between a bill and a promissory note may be noted in brief. Unlike a bill, a promissory note is not drawn by the creditor but made by the debtor. Since the promissory note is never accepted, there is no acceptor and his place is taken by the maker, whose liability is the primary one. The maker of a promissory note stands in immediate relation with the payee but the drawer of an accepted bill stands in immediate relation to the acceptor. There is no other difference between bill and note as regards other parties. Secondly, the bill is an order to pay, whereas a note is a promise to pay. Thirdly, liabilities of parties to bill and note vary. The drawer of a bill when once it has been accepted, is liable only secondarily. But the maker of a note is the principal debtor and corresponds with the acceptor of a bill. Besides, when note is given by more than one maker, their liability may be joint or joint and several. In the case of bill, however, it is joint. Hence in the case of a note with joint and several liability, action, if necessary, may be taken against the makers either singly or in conjunction, simultaneously or one after another, till the full amount is recovered. Fourthly, the sections of the Act providing for presentment for acceptance, etc., which apply to a bill, do not apply to a note. Demand bills, however, are not accepted. Fifthly, a bill

may be accepted conditionally but a promissory note cannot be conditional. Sixthly, in case of dishonour of a bill, particularly foreign bill, it must be noted and protested. A promissory note, even if foreign, need not be protested. Finally, there is no stamp duty on bills payable on demand. In England, a two-penny stamp is essential in the case of demand bill. But all promissory notes require ad valorem stamps.

Thus we have seen that both bill and note are the outcome of credit transaction and we have also noted their similarities and differences. But then the bill possesses several advantages over promissory note which makes the former more attractive to the trader. For, the bill is more secure an instrument than promissory note in so far as the former when accepted bears the signature of both drawer and acceptor. Even as negotiable instruments, bills have greater negotiability and therefore command greater popularity. A promissory note is regarded more as acknowledgement of debt than a negotiable instrument.

In India however promissory notes are quite popular. At times even large amounts are raised by this device and is given preference to Hundis by smaller people. The main reason for this is to be found in the fact that because of limited negotiability, a promissory note ensures greater amount of secrecy, which is difficult to maintain either in the case of a hundi or of a bill. The rules regarding payment, etc., are not very strict and hence those firms which can obtain advances on promissory notes will seldom use hundi. Only those shroffs who take advances from the bank do not accept promissory note which is not accepted by bankers. They have to take hundi which is a two-named paper.

In May, 1946, the Bearer Promissory Notes (Prohibition of Issue) Ordinance was issued by the Government which prohibited the banks from issuing promissory notes payable to bearer. These promissory notes did not contain the name of the original purchaser and passed from hand to hand as a negotiable instrument till maturity. Thus virtually they became notes so long as they circulated and hence constituted a violation of the principle laid down

in Section 31 of the Reserve Bank Act under which the Bank is entrusted with the sole right of note issue. This section prohibits the issue of bills of exchange payable to bearer on demand. But since promissory notes are not mentioned therein, many new banks started the practice of issuing bearer promissory notes payable after a fixed period. Hence the ordinance was issued which lasted for six months. In November 1946, Section 31 of the Reserve Bank Act was amended as follows: "Notwithstanding any thing contained in the Negotiable Instruments Act, 1881, no person in British India, other than the Bank, or as expressly authorised by this Act, the central Government shall make or issue any promissory note expressed to be payable to the bearer of the instrument." The reaction of the business public to this was however unfavourable and the government action was regarded as unjustifiable and unwarranted.

In the case of small loans for short duration, even a promissory note is regarded as too complex an instrument and hence the I. O. U. is devised. This also is an acknowledgement of debt but it contains no date on which money is to be paid back. Since it is not a promissory note, no stamp duty is required on it and hence is more economical. The I. O. U. is not a negotiable instrument. If the name of the creditor does not occur in it, it should *prima facie* be taken as an evidence of debt due to the person who possesses the document. If the maker of an I. O. U. does not pay the amount within a reasonable time, and if legal action is taken, the money is to be paid back on the date fixed by the court. Though it is not a promissory note and not a negotiable instrument, it is advantageous in case of small loans for short duration for which the expenses of stamp duty may be avoided.

Hundies.

The present chapter would remain incomplete if we do not consider Hundi, by far the most important instrument in use in this country. Hundi is also a bill of exchange but drawn in Indian language. This document has been in use since time immemorial and has developed a tradition

behind it. But the usages and practices governing hundi are not the same nor is it a negotiable instrument within the definition of the Act. But where there is a conflict between the parties or where there is an express indication on the instrument to the effect that legal relations between the parties be governed by the Act, the Act shall apply.

A hundi is used to serve three purposes. In the first place, it is used for raising a loan and in this form it corresponds to the finance bill. Secondly, hundi is used for the financing of trade. In that case it is very similar to a bill of exchange. But unlike the latter, the hundi is not accompanied by other documents of title. Thirdly, a hundi is used for the remittance of money, whether for purposes of trade or otherwise.

Broadly, hundies may be of two types—Darshani or Demand Draft and Muddati or Time Draft. Darshani hundi is used in the day-to-day business and in its popularity it may be compared to cheques in England and other western countries. Darshani hundis are generally payable on presentation but in some markets a few days of grace are allowed, which are however not uniform. Where the days of grace are allowed, even in case of darshani hundi, the acceptance of the payee is obtained soon after the draft is received. No stamp duty is payable on darshani hundi. The darshani hundi may be written on an ordinary paper; but the shroffs generally use printed forms for this purpose. Brokers play an important part in getting the hundis discounted, for which they charge a small brokerage which normally varies from 3 to 6 pies per hundred rupees and is payable by the buyer or by the individual or firm discounting the hundi. When hundi is used for the remittance of money or for realising a loan from the debtor, the shroff charges a fee varying from 6 pies to an anna per hundred rupees. Although not a negotiable instrument within the meaning of the Act, they have sufficient negotiability among the indigenous bankers and are even rediscounted by joint stock banks when presented by approved customers.

Muddati hundi is one of the most important instruments handled by the shroffs. Unlike the darshani hundi,

it is payable after a specified period usually varying from 21 to 61 days. The period for which muddati hundi may be drawn is not fixed either by law or by custom; but generally it does not exceed 11 months. The muddati hundi is written on a stamped paper, the stamp duty being annas two per Rs. 1000/- or any part thereof. Brokerage charged on muddati hundi is almost the same as in case of darshani hundi but in the case of weak and doubtful parties, whose credit is not sufficient, it may go as high as Rs. 5/- per cent. The security against the muddati hundi is mainly personal, but at times the discounting broker may demand the signature of persons or firms of integrity, known to himself, in order to safeguard against any possible loss. Since muddati hundi is negotiable, though not within the meaning of the Act, it may be rediscounted for a number of times. Every time it is rediscounted, it is re-indorsed and this increases the safety of the instrument and makes it more readily acceptable. When the date for payment falls due, it is presented by the holder to the firm which originally executed it. The hundi is hardly dishonoured; for, the inability to honour one's hundi is considered as very serious; it ruins his credit and is virtually taken as a declaration of insolvency. However, if it is dishonoured, the holder can claim the amount from any of the parties who have endorsed it.

The banks are nowadays beginning to take interest in hundi transactions and therefore the business practice is also being modified. When goods are sent to some place, it is usually customary for the consignor to send R/R. accompanied by a darshani hundi drawn on the consignee through a bank or through another party known to the sender. The R/R is handed over to the consignee after he has honoured the darshani hundi. In other cases, where the value of goods is Rs. 100/- or less, the R/R is sent direct to the customer per V. P. P. When the business is of long standing, the R/R along with the hundi may be sent direct.

The premia and discounts on hundi depend on the nature and extent of demand for remittance on a particular market. When there is a heavy demand for making remittances to any particular market, hundis payable there

often sell at a premium. When there is less or no demand, they sell at a discount. The limits of premium and discount are determined by the cost of making remittances by bank drafts in places where banking facilities are available. Where however no banking facilities are available, the limits are wide enough and may rise even to 1 p.c. Much again depends on the status of the drawer and endorser. When the drawer and endorsers are well-known firms, they are discounted at favourable rates.

The reduction of stamp duty has been a step towards the increased use of muddati hundi. As it is, however, a number of reforms may yet be made which, if introduced, will be a step forward towards their greater popularisation. In the first place the rediscounting facilities available to indigenous bankers in the organised money market in general and with the Reserve Bank in particular should be improved. The use of hundi should not remain restricted to the indigenous bankers. Even co-operative banks should be encouraged to deal in them. This step has been considered to be full of great possibilities and it is hoped in certain quarters that in this way "the distant parts of the province can in course of time be linked to the central money market." Besides, an arrangement should be made for revalidating the noting of dishonour and protest by recognised associations of bankers, merchants or shroffs, so that the holder may be saved a lot of trouble and expenses.

The seasonal stringency in the money market arising out of the movement of crops has been too well-known to need mention. Now, after the establishment of the Reserve Bank and the adoption of the proportional reserve system, the situation has been relieved to some extent. This is also partly due to the prevalence of the easy money conditions in recent years. But before 1930 the arrangement was most haphazard. The Government of India used to supply the deficiency in the money market by the issue of emergency currency against hundis held by the Imperial Bank. The Imperial Bank was however seldom able to tender a sufficient volume of bills against which the required amount of additional currency could be issued. Therefore, the Imperial Bank had to take resort to the doubtful expedient of getting

cash-credits granted by it to its customers converted into hundi transactions with a view to being put up as cover against the Bank's borrowings from Paper Currency Reserve. In order to remove this difficulty the Bombay Provincial Banking Enquiry Committee made a suggestion for the development of a discount market which does not seem to have exhausted its usefulness even to this day, and may be considered here not only for the popularisation of the hundi but also for improving the condition in the money market. In the words of the Committee, "All these difficulties will be obviated, nay, the seasonal strain on currency itself will be greatly mitigated if proper inducement is offered to the people to draw hundis and accept hundis drawn on them and if in consequence a regular discount market comes into being. For the creation of a discount market for hundi in the mofussil, it will be necessary to open branches of banks at several places. Such branches will not however be paying propositions. We would therefore suggest that co-operative banks and the indigenous bankers should be encouraged to do hundi business at such centres, working, if it can be arranged, as agents of the Imperal Bank" (now Reserve Bank).

We have considered above two types of hundis. These two types however assume different character according as one or other condition is imposed. Thus in case of a *Shah Jog* Hundi, the instrument is drawn by one merchant on some other merchant asking the drawee not to pay the amount to any and every person but only to a *Shah* or a respectable holder. This is as good as special crossing on a cheque and the liability of the drawee in case of such hundis is practically the same as that of a paying banker in respect of crossed bearer cheques. This type of hundi passes freely from hand to hand and without endorsement. There have of course been cases of bogus *shahs* and the decisions of the court have held the drawee as liable for making payment to the unknown person in contravention of the instruction implied by the *Shah Jog* Hundi. The tendency in some money markets is towards removing these restrictions. Thus in Bombay Presidency, under the initiative taken by the Bombay Shroffs' Association, a new form of hundi has

been introduced which is known as *Dekhadnar Jog* hundi or instrument payable to the bearer on presentation. This form is in use in Bombay and Gujerat.

Another form of hundi is the *Jokhmi* Hundi. This is an instrument which indicates how the Indian inventive genius had combined banking with insurance when risk was involved in transit. Therefore *Jokhmi* Hundi is in the nature of a policy of insurance, but the difference is that money is to be paid by the underwriter beforehand and will be recovered if the goods arrive safely. Naturally, therefore, there will be three parties to this instrument, the consignor, the underwriters and the consignee. The consignor despatches the goods, draws a hundi and sells it to the insurer for cash, depending on the value of the hundi minus insurance charges. The insurer sends the hundi to his branch at destination for collection. When the goods arrive safely, the hundi is presented to the consignee who pays for it and takes it from the holder. Be it noted here that if the consignee refuses to pay, the holder has no other alternative than to take the goods himself and settle the matter with the consignor. The holder of the hundi cannot sue the consignee in the court of law in case of non-acceptance or non-payment. If the goods are lost in transit, it falls on the shoulders of the insurer and the hundi cannot be presented. But in the case of damage or partial loss, the holder has the right to receive the full amount, for he insured the goods against total loss, but not against partial loss or damage.

A *Namjog* Hundi is one which is payable to the party named in the bill or his order. If a *namjog* hundi is accompanied by a descriptive roll of the party in whose favour it is granted, its transfer becomes restricted. When however it is not so accompanied, it may be transferred by endorsement.

In case of a *Jowabee* Hundi, the nature of the transaction is as follows. A person who is to remit money writes to the payee and delivers the letter to the banker who either endorses it on to any of his correspondents near the payee's place or negotiates its transfer. When the letter arrives, it is forwarded to the payee. The payee

attends and gives his receipt in the form of an answer to the letter which is sent through the same channel to the drawer of the first documents.

Two other forms of hundi are *Dhani jog* and *Farman jog*, the former being payable to the holder and the latter to order. But these instruments are in little use.

A few words may now be said about *Zickrichit*. A *Zickrichit* is a letter of protection given to the holder of the Hundi or any other negotiable instrument by any of the previous parties. This letter of protection is generally addressed to some resident at destination where the payment for hundi falls due and requests him to take the hundi in case it is dishonoured by the drawee.

PART III

INSURANCE

CHAPTER VIII

FUNDAMENTAL PRINCIPLES OF INSURANCE

Basic Principle

In business, we may lay down the dictum, 'No risk, no gain'. In fact, we cannot think of present-day business enterprise apart from risk. Risks may be of three types—unforeseen and non-insurable, foreseen but non-insurable, and foreseen and insurable. In the first group, we may mention all windfall gains or losses which are neither foreseen nor insurable. In the second group we may mention a number of risks, e.g., risk due to price fluctuation, or due to change in taste and demand, etc., which are peculiar to business and cannot be shifted directly. In the days of modern industrialism, this type of risk has to be borne by the enterpriser. It is true that he may ultimately shift the burden of the risk on the ultimate consumers by charging higher price. But the impact of the risk falls on him and his ability to shift it on to the shoulders of the consumers depends on his competitive efficiency. For, if he is already on the margin, any such risk may ruin him altogether before he gets a chance of shifting the burden. It is only in the third case that the risk can be shifted on to the insurer, who, in his turn, spreads the risk over the entire business community, and thereby on the consuming public. Insurance is therefore a scientific device of transferring the risk from one shoulder to many.

Thus insurance does not prevent the appearance of risk. What it can prevent is total loss. It is too much to expect that the insurer makes good the loss from his own pocket. He charges premium from all persons insured and out of a common fund thus created, the loss, if any, is made good. It is not that all persons insured will suffer loss at the same time in normal times. So even after meeting a few claims that may arise, the insurer makes a profit, which is equal to the balance of the fund. Thus

the payment is actually made by the insured; but yet they like this, because, on payment of a small premium, they can insure their goods against any contingency. Thus the basic principle of insurance is the spreading of risk. The basic principle apart, there are a few general principles which will be considered below.

Principle of Indemnity.

The word 'Indemnity' implies security against loss. There must be three things in this,—first, the happening of an event, event bringing loss to the insured party and the loss made good by the insurer. When these three steps have been fulfilled, it is called indemnity. The Indian Contract Act defines a contract of Indemnity as "a contract by which one party promises to save the other from losses caused to him by the conduct of the promisor himself, or by the conduct of any other person is called a contract of Indemnity." Apparently, the Indian Act is very narrow in so far as the loss must arise out of human conduct, whether that of the insurer himself or that of any other person. Thus understood, a contract of indemnity in India does not, under the Contract Act, undertake to indemnify for losses arising out of marine adventure. In this respect therefore the courts in India have to be guided by the English Statute which gives a much wider definition to the contract of Indemnity and includes in its range the losses arising out of events not necessarily dependent on human conduct.

The underlying feature of a Contract of Indemnity is that the insured party cannot make any profit out of the contract. Only to the extent of the loss will the insurer pay by way of compensation. If as a result of an event an insured article is damaged in part, the insured can claim compensation only to the extent to which it is required to restore it in proper order. It follows from this that the company charges premium according to the risk involved. Thus where the construction of building is defective or where the most up-to-date methods have not been adopted for extinguishing fire, etc., the extent of risk

naturally increases and hence higher premium is charged. Where, on the other hand, necessary precautions have been taken, discounts, involving a reduction of premiums, are granted.

Be it noted that life assurance is an exception to the contract of indemnity. Of course, even upto the middle of the last century, life assurance was regarded as a contract of indemnity similar to other contracts. Even to this day in ordinary language we hardly draw any distinction between life assurance and other types of insurance. But the difference between the two is clear enough. For, assurance applies to those contracts which guarantee the payment of a sum certain on the happening of a specified event which is bound to happen sooner or later. Not so in case of other contracts where the event may or may not happen. And secondly, most contracts of insurance are usually annual contracts and the insurers have option to refuse renewal and even may terminate the contract any time on a proportionate refund of premium in respect of the period which has not yet expired. Life assurance contracts, on the other hand, are long term contracts and, in general, unless there is some irregularity, the insurer has no option to cancel it.

Guarantee.

The Indian Contract Act defines a contract of guarantee as "a contract to perform the promise, or discharge the liability, of a third person in case of his default. The person who gives the guarantee is called the 'surety'; the person in respect of whose default the guarantee is given is called the 'principal debtor,' and the person to whom the guarantee is given is called the 'creditor.'" An Agreement of Guarantee is not valid if it is entered into without sufficient disclosure of facts, or by mis-representation of facts. As in the Contract of Indemnity, so in the Agreement of Guarantee, if the Surety wants to provide himself with the means of meeting a possible or an expected loss by the help of more than one obligor, he can do so and there is nothing to prevent him. In such a case, the principle of contribution, as will be noted later, applies to the contract, as between

different sureties. Section 146 of the Indian Contract Act runs as follows: "Where two or more persons are co-sureties for the same debt or duty, either jointly or severally, and whether under the same or different contracts, and whether with or without the knowledge of each other, the co-sureties, in the absence of any contract to the contrary, are liable, as between themselves, to pay each an equal share of the whole debt, or of that part of it which remains unpaid by the principal debtor."

Good Faith.

On this point, an insurance contract differs from any other contract. In an ordinary contract, the parties are simply required to abstain from positive deceipt. But an insurance contract is characterised by utmost good faith which is something more. The nature of disclosure in this case includes not only every material fact within the knowledge of the insured, "but any material fact which a person seeking to obtain the advantages of the particular protection ought in the ordinary course of business to know and the knowledge of which will for that reason be imputed to him." This utmost good faith thus implies that it is the duty of the contracting parties to disclose everything which is of material importance. For this purpose the insured must not only tell the truth in all statements made by him to the insurers but must also disclose everything that is and should be known to the latter. For, it is on these facts that a prudent insurer will make his decision as to whether he will accept the risk and also as to the rate of premium. This principle applies both to the insurer and the insured. If, however, at any time after entering the contract it is found that sufficient disclosure is not made by one party or the other, the contract may be rescinded by the other party.

Insurable Interest.

The insured party must have an insurable interest in the thing insured so that he benefits by its safety and loses

by its loss. If an insurance contract is entered into with a party who has no insurable interest in the thing insured, such a contract cannot be enforceable at law and at times creates criminal responsibility on the parties to the contract. The Indian Contract Act however contains no definition of insurable interest. Even in the Insurance Act of 1938 there is no general definition given to insurance interest. Only in case of Provident Societies, the limit of insurable interest is indicated in the following words: "No Provident Society shall receive any premium or contribution for insuring money to be paid to any person, other than the person paying such premium or contribution or the wife, husband, child, grand-child, parent, brother or sister, nephew or niece of such a person." (Section 68). This being the case, the Indian Courts have therefore to depend on the explanation of insurable interest given by the English courts. Barwell (*Insurance in British India*) has compiled a list of persons having insurable interest which is as follows:

> "Owners of property, in that property whether moveable or immovable, vendors and purchasers, mortgagors and mortgagees of all such property; landlord and tenant in the land or premises demised; bailees, gratuitous or for reward, pledgor and pledgee, consignor and consignee, common and all other carriers, and lien holders, in the property respectively entrusted to them or in their possession; a shareholder in his share; an agent in his commission; a man engaged in trade or commerce in his stock-in-trade as well as in his profits; an hirer in that which he hires; and an insurer in his risk.
>
> "Every adult person has an insurable interest in his or her life and health. The law recognises insurable interests mutually arising out of the relation of husband and wife, of parent and child, master and servant, trustee and..............trust and also recognises the interest of a creditor in the life of his debtor.
>
> "Every person too is recognised as having an insurable interest in a real or supposed liability to some one else, and may thus provide against the risk of any such liability being brought home to him. Hence

arises the right enjoyed by insurers to reinsure. Hence too has originated that large class of modern insurance business designated to cover what in the commercial world is known as 'third party risks'. In brief, he may now be said to have an insurable interest where not to insure would expose him to uncompensated injury or loss."

This list of insurable interest however is by no means exhaustive.

Subrogation.

Subrogation is the right which one person has to stand in the place of another and avail himself of all the rights and remedies of the other. This principle applies to the contracts of Indemnity and Guarantee. Hence it does not apply to those forms of insurance where indemnity and guarantee do not appear as object of the contract, *e.g.*, life assurance where one party has agreed to pay a fixed sum to the other party on the happening of a particular event which is certain. This principle operates only after the insured is paid compensation under the contract, but not before that. But then none of the parties can make profit, not only the insured but also the insurer. It not only precludes the insured from being indemnified from two sources in respect of the same loss, it also does not allow him both to claim under a policy of insurance and at the same time to retain any damages recovered from third parties. So also in case of insurer. For, he must have the knowledge of the existence of every other contract of indemnity or guarantee in respect of the same peril. For, in this case equity comes to the help of the insurer by the application of the doctrines of subrogation and contribution. The insurer is entitled to be subrogated only to the extent of the loss he has paid by way of compensation, to all rights against third parties in respect of the loss and may require the insured to enforce such rights in his own name but at the expense of the insurer. This applies mostly in fire and marine insurance.

Contribution.

It applies to the contracts of indemnity and guarantee and limits the amount claimable from individual insurers. The amount payable by each insurer is not the same for which an insurance policy is taken but is to be determined by the rateable proportion of the loss. If this clause is not inserted in the policy, the insured can recover from any individual insurer the full amount of his loss and thereby make a huge profit. But since this principle applies, he will receive compensation only to the extent of the loss and this will be paid by all the insurers in rateable proportion. If an insurer has paid more than his fair proportion of the loss, he can enforce contribution from other insurers. If an insured party has received more than the fair amount, he holds the surplus in trust for the insurers in proportion to their rights of contribution. The principle of contribution does not apply to life assurance or personal accident insurance.

Arbitration.

Most of the fire and accident insurance policies contain an arbitration clause as a result of which if there is any reason for dispute, it is to be referred to arbitration.

Cancellation.

The cancellation clause has a very restricted applicability. It applies to marine floating policies with open cover and most accident policies. It implies that the insurer may at any time give the insured by registered post a stipulated period of notice of cancellation and return in respect of the unexpired time a *pro rata* proportion of the premium. The notice of cancellation is given only in extreme cases when a disastrous claim is apprehended, or when the insured party has proved to be unreasonable or when a case of fraud is suspected.

The above gives an idea of the general principles underlying a contract of insurance. Now, we shall proceed to consider some of the more important types of insurance business as are to be found in this country.

CHAPTER IX

LIFE ASSURANCE.

Introduction.

Insurance is nothing new in Indian business. Indian business genius invented in its own way the methods of insuring against risk. This mainly took place in the maritime trade and trade with countries beyond Indian frontier. But so far as life assurance is concerned, it did not occur to them, nor was it essential in a social structure in which family and not individual was the social unit. The family took the responsibility for the widows, the aged and the infirm and hence individual saving against future contingencies never occurred as essential. Life assurance had therefore a late beginning and was due to European influence. It is however peculiar to find that while life assurance is practically in the hands of Indian concerns, insurance other than life is mainly in the monopolistic possession of foreign concerns. To some extent it was due to the fact that during the last one hundred and fifty years, our foreign trade has remained mainly in the hands of the Europeans and other outsiders who have given their support to their own concerns. But it is mainly due to the fact that the non-Indian concerns were not ready to undertake the risk in a new country in a line of business where most of the factors, *e.g.*, average expectation of life, rate of mortality, etc., were unknown to them. Hence the Indian concerns made progress in these lines. The total volume of insurance business and its distribution in life, non-life and annuity business may be noted from the following tables:

(Source: *Indian Year Book,*
The Times of India 1943-44.)

Table showing the number of insurance companies and volume of insurance business in India:

	1938	1939	1940
Total number of Cos. ...	360	295*	294†
Total number of Indian Companies (mostly life) ...	217	197*	198†
Total number of non-Indian Companies (mostly non-life) ...	143	98*	94†
	In crores of Rupees.		
Average value of Life Policy issued by Indian Cos. ...	1,460	1,473**	1,645††
Average value of Life Policy issued by non-Indian Cos.	3,224	3,716**	3,963††

Table showing the Volume of Life Business in force:

In Crores of Rupees.

	1938	1939	1940
Sums assured with Indian Cos.	204	215	225·51
Sums assured with Non-Indian Cos.	94	56	60·12
Premium Income ...	15·6	14·3	13·99
Premium Income of Indian Cos.	10·5	11·3	10·69
Premium Income of Non-Indian Cos. ...	5·1	3·0	3·30

* upto May 1941.
† upto June 1942.
**Figures for 1939.
††Figures for 1940.

were several reasons for this. In the first place, these newly-started concerns adopted a number of safeguards in the interest of policy-holders, as is indicated in the name, "Oriental Government Security", etc. The investment of a major portion of the funds in Government Securities has remained popular with the insurance companies even to this day. Secondly, most of these newly started companies were mutual associations. As in England, so in India, these mutual aid associations appeared fairly large and continue even to this day. These associations have a restricted field of activity, being confined, in early stages, to particular groups and communities and their working was very much economical because of the honorary services rendered by the office bearers. The limited field of working, again, made the services of agents redundant and therefore could avoid their commission which is not a small item of expenditure to-day. The popularity of foreign concerns, with huge resources, as against the newly-started Indian concerns, had not, however, waned upto the coming of the *Swadeshi* movement.

As in many other fields, so also in the field of insurance business, the Swadeshi movement was followed by a mushroom growth of insurance companies, as also by the increase in the volume of business of the already existing concerns which upto that time had to face strong competition from non-Indian, particularly British concerns, which were strong enough for their countrywide organisation. The excessive enthusiasm resulted in the formation of a number of uneconomical concerns. This resulted in an agitation for the control of insurance business. Accordingly, the Insurance Act of 1912 and the Provident Insurance Act of 1912, based on the British model, were passed.

The effects of the insurance Acts were beneficial for more reasons than one. So far as foreign companies are concerned, a number of them ceased to write further business with a view to avoid the legal requirement of the submission of reports to the Government. The Indian concerns who were working on unsound lines were forced to modify their methods of working. They were called upon not only to conform to actuarial requirements but also not to declare

dividend except from the actuarially ascertained surplus. Under the requirements of the Acts, a number of concerns had to go into liquidation.

The period beginning from the great war upto the great depression is rightly regarded as a period of trial for life assurance business. The war brought a number of problems before them as a result of which the good effects of the Acts were lost. Not only the new business underwritten by the companies declined and the companies had to meet a number of unforeseen claims, but also the companies found it risky to invest their existing funds in the stock exchange securities which had depreciated in value. Because of the same reason, their own assets depreciated, and many concerns, except the conservative ones, were faced with difficulties. To crown all came the influenza epidemic of 1918, which swept away a large number of people. The situation however improved in the post-war years and a number of Indian and foreign companies were floated.

From 1929 onwards, India saw insurance boom once more and a large number of companies were floated every year, some of which have even by this time been sufficiently well-established in business. This however is not true of many others and every year therefore a number of weaker concerns either combined amongst themselves or amalgamated with more vital concerns. The Insurance Act of 1938 has been a further step. To prevent the growth of mushroom companies, the Act provides for registration of all insurance companies and they are required to give a substantial deposit of Rs. 50,000/- in securities which is to be raised to Rs. 2,00,000/- within a prescribed period. The coming of the second great war complicated problems and the gravity of the situation came to be recognised by the Government. The Insurance Act, as a consequence, came to be modified in 1941 in the interest of such small life assurance companies who experienced a fall in new business. As a result of this amendment, the Insurance Rules were relaxed and the periodical instalments of deposits required by the Act were reduced for the duration of the war and one year after. Safeguards have however been made to prevent the com-

panies taking advantage of the concession so granted to incur increased expenditure or liabilities of an unjustifiable nature.

Features of Life Assurance Business

In the field of life assurance in this country, business written under endowment assurance constitutes about three-fourths part of it. In the rest, the whole-life policy predominates. As already said, the major portion of life assurance business is in the hands of Indian companies. But their position is not enviable as compared to that of the foreign companies. For the average policy amount of the foreign concerns is much higher than that of the Indian companies and this is mainly due to the better economic condition of the insured parties who have come from distant lands and who are at the same time more insurance-minded. Those Indians who insure with them are well-to-do and the rate of mortality of such people is low. Before 1927 no concerted action was taken by the insurance companies to improve their position. Only that year the Indian Life Assurance Offices Association came into existence. The position of the life assurance concerns, both Indian and non-Indian, as regards the business effected, average policy amount, etc., is indicated in the following figures from the India Year Book (1943/44). The total new life assurance business effected in India during 1940 amounted to 20,6000 policies insuring a sum of Rs. 36.11 crores and yielding an annual premium of Rs. 1.89 crores, of which the new business done by Indian insurance companies amounted to 196000 policies insuring a sum of Rs. 32.32 crores and having a premium income of Rs. 1.67 crores. The share of the British insurers in respect of the new sums insured is Rs. 1.96 crores, of the Dominions and Colonial insurers Rs. 1.77 crores and of the single Swiss insurer Rs. .06 crores. The average sum insured per policy under the new policies issued by Indian insurers in India is Rs. 1,645 and under those issued by non-Indian insurers Rs. 3,963. Not only this; even in matters of insurance of the lives of the people living outside India, the average policy amount of Indian

insurers is not very high, not higher than that of foreign companies working in India. These Indian life offices had been operating mostly in Burma, British East Africa, Ceylon, Federated Malay States and Straits Settlements. The total new sums insured by these offices outside India in 1940 amounted to Rs. 2.91 crores yielding an annual premium of Rs. 0.16 crores, the total sums insured including revisionary bonus additions remaining in force at the end of 1940 amounted to Rs. 18.40 crores having premium income of Rs. 0.96 crores.

We have considered above one aspect of the life assurance business *viz.*, that of liabilities. Now, we shall consider in brief the various assets of the insurance companies in India. The following table gives a percentage analysis of the assets of the Indian life assurance companies:—

Year	India Govt. Securities & Indian States Securities.	Port Trust, Improvement Trust & Municipal Securities.	Shares in Indian Cos.	Miscellaneous.
1914	59·15	16·08	1·77	33·0
1919	59·71	14·64	2·44	33·21
1925	53·51	17·28	3·34	25·87
1930	41·34	14·88	2·74	41·4
1931	51·61	14·01	4·13	30·25
1935	50·91	10·52	6·20	32·37
1938	52·81	9·06	7·08	31·5

It will be seen from the above table that the place of preference is given to the India Government Securities and Indian States Securities. In recent years, of course, the investment in these as also in Port Trust, Improvement Trust and Municipal Securities has declined and that in the shares of the Indian companies has considerably increased. The investment in British, Colonial and foreign government securities has not been separately shown but is included in the miscellaneous group. But it may be taken without hesitation that they come next to India Government Securities and Indian States Securities. The policy followed by insurance companies as regards investments in real estates

is however not uniform. For while some of them, as the Oriental Government Security Life Assurance Co., do not prefer investment in real estates except those connected with its own head office and branch buildings, others, like the Hindusthan Co-operative, owes its present position owing to its investments in land, and house property as well as mortgages. Investment in stocks and shares is generally opposed on theoretical grounds that if a huge investment is made in them, the insurance company would then be forced to take part in those lines which would be contrary to the purpose of the insurance company. But theoretical considerations are of less importance than practical achievements and some of our insurance companies, *e.g.*, the National Insurance Company of Calcutta or the Bharat Insurance Company of Lahore have been known to be specialising in this line. Loans on policies within surrender value are granted to some extent.

The Insurance Act of 1938 has been specific about the investment of the funds, a step considered essential in the interest of policyholders. Under this Act, provision has been made for investment of not less than 55 p.c. of the life funds and the liability for the matured claims less any deposits made to the Superintendent under the Act and loans granted on policies maturing in India and within their surrender values, in the following way: 25 p.c. in Government Securities, and a further sum equal to not less than 30 p.c. of the said sum in Government or approved securities, or securities of, or guaranteed as to the principal and interest by, the Government of the United Kingdom. The above provision applies to Indian Companies or companies incorporated and domiciled in the U. K. In case of others, however, they are required to invest and hold invested assets equivalent to not less than the sum of their liabilities to be arrived at, in the following manner: 33 1/3 p.c. of the said sum in Government of India securities and the rest in Government of India or British Government or approved securities. The insurer is, under the Act, prohibited from granting loans or temporary advances, under any circumstances, except loans on life policies issued by him within their surrender values, to any director, manager, managing

agent, auditor, or officer of the insurer if a company, or, where the insurer is a firm, to any partner therein or to any other company or firm in which the above people hold above positions.

The calculation of premium to be paid by the assured depends on a number of factors. The first and most important factor determining premium is the average expectation of life or the rate of mortality. In this respect the working of many of our concerns is defective; for, most of them calculate premium on old fashioned mortality tables. Only a few Indian companies have recently investigated the rate of mortality of the Indian assured lives. The need for a comprehensive survey on all-India basis is long overdue and this work should be taken up by the Indian Life Assurance Offices Association. Another factor determining premium is the rate of interest earned on the reserves accumulated against a policy. If the interest earned is high, this goes to the policy-holder in the shape of charging from him lower premium. Where the rate of interest is low, a higher premium will naturally be charged. In case, however, the fluctuation of interest rate is expected to be of short duration, no immediate change in premium charged is effected. The same is true with regard to with-and no-profit policies and also to the payment of premium annually or by instalments. In case of with-profit policy, the premium will naturally be higher than in case of no-profit policy. If again the premium is paid by quarterly or half-yearly instalments, a higher premium will be charged than when the payment is annual, for the extra charge in the former case is made partly for covering the expenses of collection and partly for covering the loss of interest on the premium amount. Last but not least, the cost aspect is to be considered in the determination of premium—the cost incurred by the insurance company in pushing business and that for maintaining staff and establishments for an ever-expanding business. Besides, the shareholders or promoters should be given a share in the profits. All these factors constitute the cost of the insurance company and it has increased much more than what it had been in the early stages of insurance business when the insurance societies were mutual in nature.

But the actual calculation of the rate of premium is determined not so much by theoretical considerations as by the necessity of the movement in step with other rival concerns.

As already said, when the premium is paid by instalments, a higher premium is charged. Some companies however do not charge anything extra with a view to suit the convenience of the assured; but they allow a certain per cent reduction in premium to those who pay it annually and thereby seek to encourage payment by a single instalment. When the assurance contract matures and the claim has to be settled, certain formalities have to be gone through by the beneficiaries before the payment is made by the company. The greatest trouble arises when the policy taken is the whole-life one and the beneficiary is a widow or an orphan. In such cases trouble arises either due to the delay on the part of the company to make payment or due to the fact that money falls in the hands of unscrupulous persons posing as relatives and well-wishers. So far as the former cause is concerned, it may be said that the delay in most cases is not due to the unwillingness on the part of the company but due to the lack of information or similar other reasons. Some of the companies have indicated their good intentions by paying interest on the full amount for the period after the claim arises, provided however that the delay is not due to the negligence of the beneficiary. But the second cause of the trouble is more dangerous and may mar the intention of the insured. In this respect, the insurance company has its own duty for preventing any squandering of the savings. In Western countries they have devised a number of ways which may conveniently be copied in this country according to our requirements. The following alternative ways of settlement are prevalent in Western countries:

1. Payment of interest upon the sum insured during the lifetime of the beneficiary or for some other period fixed by the election of the insured (or of the beneficiary at the death of the insured) together with the payment of the principal sum at the end of that period.

2. Payment of equal instalments, including both

principal and interest, for a fixed period of years irrespective of whether or not the original beneficiary survives.

3. Payment of equal instalments for a fixed period of years as stated in 2 above, but with continuation of such instalments to the beneficiary for life if still living at the end of that period, the amount of the instalments depending not only on the length of the fixed period as in 2 but also on the age of the beneficiary.

4. Payment of instalments of a selected amount until the principal sum is exhausted, interest being credited annually on the unpaid balance.

5. Sometimes an option is also given to the beneficiary to apply the proceeds of the policy in the purchase of a life annuity at a rate somewhat more favourable than that applicable to other purchasers. In this case the age of the beneficiary has to be admitted before the value of the annuity is fixed.

One or other of the above methods has been adopted by insurance companies in England and America and their use is rapidly increasing. Their utility in this land is all the more great in view of the wretched condition in which many of the families find themselves placed immediately after the death of the single earning member.

A few words may now be said about the bonus declared by the insurance company. Under the law, the bonus can only be declared out of the actuarially ascertained surplus, which is divided in an agreed proportion between the shareholders and the participating policyholders, after a part of the surplus is carried to the reserve. There are two methods of the calculation of bonus in use, simple reversionary and compound reversionary. As the name indicates, the former is declared only on the sum assured whereas the latter both on the sum assured and the bonuses added in previous years. The latter method is naturally therefore more complicated and requires a payment of bigger amount particularly on older policies. While simple reversionary bonus is popular with most Indian insurance companies, the most English companies give preference to the com-

pound reversionary bonus. The contribution method which however is the most complicated is adopted by a few British and most of the non-British foreign companies. Under this method each policy is allotted that portion of the surplus which is in proportion to the amount actually contributed by it to the profits of the company. Interim bonus is declared when the valuation period is long, of course, within the provision of the Act of 1912 which is five years between two successive valuations. The bonus may be withdrawn in cash or the future premium payments may be reduced proportionately.

Re-insurance

With the increase in risk, the need for spreading the commitments of the insurers has become very great. Hence the device of reinsurance. Reinsurance is to be distinguished from double insurance. Where the insured party covers the risk by more than one policy, it is double insurance. The insured cannot make any profit out of the contract and each of the insurers is liable only for a rateable proportion of the loss. In case of reinsurance, the loss covered by an insurance company is considered by it as too heavy and therefore a particular insurer unloads a part of the risk from his own shoulders by reinsurance. Reinsurance is essential not only for the spreading of the risk as widely as possible but also for the unloading of undesirable risks to the more specialised insurers. "Where an opportunity occurs of getting off a risk at a profit, *i.e.*, by reinsurance at a rate of premium less than that originally paid, insurers prefer to make a sure profit rather than remain on the risk." In case of life assurance, particularly in case of big contracts, the need for reinsurance is very great; for, otherwise due to mortality in some years, the amount of profits may fluctuate widely from year to year. Hence reinsurance is good for every company who has accepted big proposals. The re-insurance business is profit-earning as well and can be carried on at small cost, and on reciprocal basis by all companies.

There are two main methods of effecting reinsurance,

viz., facultative and treaty. In case of facultative reinsurance, it is effected in case of individual risks or part thereof, the reinsurer having the power of discriminative selection. The insurance may be against all the contingencies covered by original policy or some of them only. Thus the company gets a chance of examining every proposal in detail, of charging extra premium or imposing a lien, of making suggestion for any change or even refusing to accept. In case of treaty reinsurance, it is effected by an agreement between insurer and reinsurer whereby the reinsurer agrees to accept during a particular period, without the option of declining, a certain proportion of any risk over the insurer's limit. In case of treaty reinsurance, no policy is issued for the purpose; the contract is contained in the agreement which is as good as a policy of insurance. In the early stages of our life assurance companies, reinsurance had to be effected with foreign companies, for there was inadequate facility of this type available with our own concerns. Sometime back the Indian Life Assurance Offices Association tried to organise a Reinsurance Pool, but the effort proved futile. In this respect, even to this day the situation is not very helpful and there is hardly any concern specialising in reinsurance business only as has been the case in many other countries. The Post-war Sub-Committee of the Insurance Advisory Committee has recommended the establishment of an Indian Re-insurance Corporation, either state-controlled or as a private enterprise actively supported by Indian general insurance companies and fully supported by the State.

Future of Life Assurance Business in India

We have considered above some aspects of life assurance business in India. The progress of this branch of insurance business has been obstructed by a number of factors which need careful handling. These factors are: restrictions imposed on the investment of the funds of life offices, effects of taxation policy and decline in interest rates on life assurance business and necessity for reducing expenses and encouraging healthy co-operation. The

investment scope of the companies has been restricted, as already said, under the Insurance Act of 1938 as follows: 55 p.c. of the policy liabilities plus outstanding claims, less deposit and policy loans in Government securities, a further 30 p.c. in Government or other approved securities, the remaining 15 p.c. in any investment which the insurer may choose. It is true that some such restriction on investment of funds is essential in public interest; but then the definition of "approved" securities is so rigid that they have reduced the earnings of the companies. Further restrictions on investment of funds have been suggested in the Report of the Select Committee of the Central Assembly on the Insurance (Second) Amendment Act of 1947. The Select Committee suggested that freedom of action should be totally withheld from insurance companies. Thus according to them, 55 p.c. of the funds should be invested in Government and other securities and of the remaining 45 p.c., investment should be subjected to certain restrictions. When the Bill for the establishment of Industrial Finance Corporation was being made ready, the insurers had expected to find a safe outlet for investing insurance funds. But the provisions again are disappointing in so far as only a sum of Rs. 1 crore was allotted to Indian insurance companies, along with investment trusts and other financial institutions. Thus so far as investment is concerned, the position of insurance companies is far from enviable. Their position is no better from the standpoint of interest yield which has declined in recent years. According to an estimate made in the Insurance Year Book (1945), the average interest yield of Indian life offices which was 5.15 p.c. in 1935 came down to 3.18 p.c. in 1945. The continuance of cheap money policy and the repayment of 3½ p.c. non-terminable loans have reduced the average yield still further in subsequent years. We have already said that the lower the interest rate, the higher will be the premium. The premium rates of most companies are based on the expectation that they would earn 4 p.c. interest; but in actuality they are earning much less. If they enhance the rates on old policies or even new ones, that would create great dissatisfaction and make insurance unpopular. The taxation policy of the

Government is no more encouraging. The tax is levied on interest income less restricted expenses, or the total surplus disclosed, less 50 p.c. of the amounts distributed to the policy-holders, whichever is greater. This is virtually a tax not on profits but on capital which is a burden.

The future prospect of life assurance business lies on the ability of the companies to set their own house in order and on their reducing the expenses of business. A large number of uneconomic units have come into existence. We have seen in the first volume how a number of uneconomic units have been amalgamated in recent years, but as yet it has not gone very far, which is essential. Not only the promoters of smaller concerns but also those of the bigger ones should consider the question—the former for seeking amalgamation with the bigger ones and the latter allowing it, considering that their inability to do so may lead to the failure of a number of uneconomic units, thereby giving a shock to the confidence of the policy holders, from the effect of which even the bigger insurers cannot be immune. This is therefore a broad question to be considered with broadened outlook. This is not all; all the Indian life assurance 2
companies must have in view as their aim the reduction of cost so that they can offer more attractive terms even to the better lives which at present is done by the foreign concerns. The heavy expenses incurred by them on various items are a source of weakness and make it impossible for them to provide better facilities. It is no doubt true that the majority of life assurance business in India is in the hands 3
of the Indian insurers. But then "there is no room for complacency here, because considering the high average sum insured per policy of non-Indian companies, it is clear that the cream of life business, of high class lives with a low rate of mortality, acquired and maintained at a low expense ratio, still goes to non-Indian companies." This can only be stopped if the Indian concerns set their own house in order, improve their valuation basis, reduce the 4
expenses on various unnecessary items, and offer facilities as is done by the foreign concerns. In this respect also amalgamation will be of much help. The future of life assurance business depends on how very successfully our

concerns can tackle the above problems. There are people who may be afraid of monopoly in amalgamation. But this is a wrong apprehension. Amalgamation of weaker units with stronger ones need not remove competition but will create a healthy atmosphere. As the Post-War Sub-Committee of the Insurance Advisory Committee points out, "While one might raise the bogey of monopoly as an argument against combination, it is also possible to overdo the contrary aspect and create several weaklings warring with each other for the meagre business available, thereby spoiling the field and confidence."

Appendix on the Post-War Sub-Committee of the Insurance Advisory Committee

The Report of the Committee, published sometime back is very valuable so far as its recommendations are concerned. For, if adopted, they will go a long way towards removing the evils already noted. Hence a brief summary of the recommendations will not be out of place. Its recommendations about amalgamation have already been noted. As regards expenses, it has been felt by the committee that the expense ratio of most insurers operating in India is much higher than in other countries, and higher than it need be even here. Legislation as a remedy to check heavy expenses is proposed, although this is not the opinion of all the members.

Regarding restrictions on investment, the Sub-Committee, as opposed to the Select Committee's recommendations as already noted, has rightly felt that the restrictions on investment contained in the Insurance Act have been imposed "in a manner that unduly curbs the freedom of the industry as a whole". Therefore the majority of the members suggested that either the limit of investment of 55 p.c. in Government and approved securities, as required by the Act, should be scaled down or the definition of approved securities should be enlarged so as to include head office buildings, trustee, securities and first mortgage debentures of limited companies.

As regards capital and voting rights, the Sub-Com-

mitteee has suggested safeguards in the interest of policy-holders so that there may not be unnecessary interference by the shareholders in the affairs of the company. Thus it is suggested that "it should be ensured that the control of these huge funds does not pass into the hands of any one individual or group of individuals who can manipulate the funds to their own advantage". For this it is recommended that no shareholder of a life insurance company should have more than ten votes irrespective of his holding, the face value of each share to be not more than Rs. 100. The Sub-Committee has given, among others, the following suggestions: removal of a shareholder by insurers in case the shareholder is not really interested in the welfare of the company, a fair degree of capitalisation before a company commences underwriting business, utilisation of the profits of the life company between shareholders and policyholders in proportion to the funds contributed by them, some members even suggesting the fixation of this to 10 p.c. or even lower, for the shareholders.

We have already seen that the life assurance companies at present pay tax on interest income less restricted expenses, or the total surplus disclosed less 50 p.c. of the amounts distributed to policy-holders, whichever is greater. The first method is suggested to be continued in view of the high expenses of some companies. As regards the second, the Sub-Committee urges the Government to allow 100 p.c. of the amount distributed to policy-holders to be deducted from the surplus disclosed. Other suggestions include the lowering of the ceiling rate of tax fixed for life assurance companies, disallowing the rebate of income-tax for premia paid by an assessee in excess of Rs. 10,000, which at present is Rs. 6,000, etc. The above suggestions are valuable and need serious attention on the part of the Government.

CHAPTER X

MARINE, FIRE AND OTHER FORMS OF INSURANCE

Marine Insurance

It is a contract by which the insurer undertakes to indemnify the insured for all losses, arising out of marine adventure, that may be sustained by the subject-matter insured. Risks occur frequently in marine adventure and so even long ago marine insurance was brought into existence in this country as in others. But, as already noted, in this country it was closely linked up with banking practice. In its latest form, marine insurance business in India is due to the non-Indian enterprise. In the last century, Calcutta was the focal point for insurance business other than life, having the head offices of one Indian and 13 non-Indian marine insurers. This was surely due to the fact that in the commercial world of India, Calcutta was the principal centre of business of the East India Company. Bombay appeared on the scene much later and now occupies the first place in marine insurance. Madras and Karachi have little of marine insurance business.

With the exception of the Triton Insurance Company of Calcutta, the advent of the Indian enterprise in the field of marine insurance was deferred till the years of the first great war. Before the first great war, the Indian companies were conspicuous by their absence. Inspite of the fact that all through India had a prosperous foreign trade and that she has developed cotton mills by her own enterprice and capital, this aspect of commerce remained neglected for long and hence came to be occupied by the foreign concerns. It is only during the post-war boom that a number of Indian concerns came to be floated. The total number of insurers registered under the Insurance Act of 1938 upto June, 1942, was 294 of which 198 insurers were constituted in India, 94 outside India and 2 had standing contracts with members of the society of Lloyds. Most of

the Indian insurers carry on life insurance business only. They are 161 in number and of the rest, 18 carry on life business along with other insurance business and 19 carry on insurance business other than life. Most of the non-Indian insurers carry on insurance business other than life, which was quite natural in view of the fact that they came to help their own business and not so much for concern with Indian lives. The net Indian premium income of all insurers under insurance business other than life during 1940 was Rs. 361 lakhs, of which the share of the Indian insurers was Rs. 118 lakhs. Of this, the Indian insurers received Rs. 54 lakhs from fire, Rs. 29 lakhs from marine and Rs. 35 lakhs from miscellaneous business. The non-Indian insurers received Rs. 92 lakhs from fire, Rs. 101 lakhs from marine and Rs. 50 lakhs from miscellaneous insurance business. (Figures taken from the *India Year Book*, The Times of India).

Insurance of Coastal Shipping.

A major part of the Coastal traffic is still worked by sailing ships throughout the world. Even on the high seas, a number of sailing vessels are still in use particularly in those trades where time factor is of negligible importance. But the number of ocean-going sailing vessels is fast dwindling before the doings of modern science. In coastal trade and local traffic, however, they still occupy an important place, particularly so in India.

Lack of insurance facilities has been the main impeding factor to the development of our coastal trade to the extent to which it could have done. According to K. B. Vaidya (Insurance of Coastal Sailing Ships), before the second great war, there were only one or two Indian Insurance Companies that were accepting risk on hull, and only a few more that were accepting risk on cargo carried by the sailing ship. This state of affairs was mainly due to the inability of the traffic to carry the cost of insurance. Since the freight was poor, the owners of ships lacked the incentive of insuring the hull. Nor were the insurance companies eager enough to shoulder the risk, so heavy it was.

During the years of the second great war, however, the situation has improved to a certain extent and whereas one British insurance company and three or four Indian companies have come forward to accept the risk on hull, at least 5 or 6 British insurance companies and about a dozen Indian concerns now accept risk on the cargo carried by sailing vessels. This is a definite improvement; for, not only the Indian concerns, but even the British insurers have entered this field, so long uncared for. The rates charged are however heavy and may not prove attractive in the more normal times when the perils at sea will be reduced to a large extent. If these insurance companies want to retain their occupation of this new business, they would do well to consider the rates with the change of times.

Insurance of sailing vessels are of two types—insurance of hull and insurance of cargo. The insurance of hull is of recent origin, the late appearance being partly due to the illiteracy of the owners and partly due to the scattered nature of the traffic. To the extent that it is insured, it is done against total loss only, and not the partial damage. The premium charged by the insurers is very high and there is no fixed schedule among the insurers as to the premium rates. But they are becoming more or less standardised due to competition among the insurers. Besides the high premium, a number of restrictions of undesirable nature are generally placed, *e.g.*, that the amount of cover is limited to two-third of the value of the insured article, and some companies even go further by making a stipulation that only 15 to 91 per cent. of the two-third value will be paid back in case of total loss. Thus not only the insured article is not covered to the fullest extent but even within the limited cover, full payment is not made in most cases. A considerable part of the risk therefore falls on the insured. Another handicap imposed on the insured is that hull insurance does not include the insurance of masts, rudder, sail, etc., nor are they separately insurable as in some other countries. Fortunately, however, the inborn skill of the Indian sailors is high enough and in normal times, except when the weather is extremely abnormal, cases of total loss are few

and hence the insurance companies have not to suffer in general.

As in case of hull, so also in case of cargo, the insurance business is of recent origin. Before the second great war, only a few insurance companies and a few private merchants agreed to cover the risk. Now the position has definitely improved. The determination of premium depends not only on the nature of the risk and its extent but also on a number of other factors, such as, nature of the cargo, distance to be covered (sometimes as far as Persia, Arabia, Africa and islands off the coast of Arabia), period of voyage, part of the season in which the voyage is taken, difficulties in certain waters, nature of the ship, nature of the cargo and similar other factors. The policies issued are invariably Free of Particular Average, and not With Particular Average, and are safeguarded by a number of restrictions which at times make the cover useless to the insured and no claim can be enforced. In the words of Vaidya, "The net effect of these restrictions and reservations is that the only claims against which shippers of cargo can secure payment are those for total loss of the cargo carried by a ship which has itself become a total loss or a constructive total loss, and for jettisoning of the whole or part of the cargo when owing to stress of wealth such jettisoning becomes necessary for the safety of the ship and rest of the cargo. ....The shipper has to bear most of such other losses. Only in case of pilferage, ship-owners may be asked by the consignees or shippers to make good the loss. Of course, the ship-owner's liability is limited by the Carriage of Goods by Sea Act and terms of the Bill of Lading issued by him. Seaworthiness of his ship is not implied in any contract for the carriage of goods by sea although the shipowner is bound to take all due care and precautions to make his ship sea-worthy before sailing. Claims for damage are not accepted either by insurance company as it is a F. P. A. claim or by the shipowner. The shipper himself has to accept responsibility in this respect." Thus it is clear that this form of insurance is still in a very backward stage. The exuberance of restrictions makes the cover unattractive to the shipper, nor is it possible for the insurer to relax them to any very great

extent in view of the backward type of arrangements in sailing vessels. The only dependable factor is the faith in the crew; but that is not acceptable to a modern insurer.

Insurance of Inland Waterway Traffic

It is well-known that some of the rivers in Northern India are navigable. Hence in ordinary marine insurance policy, a clause known as Inland Waterway Clause is to be found. The risks covered under this clause are covered on F. P. A. terms only, though certain exceptions are allowed, which are due to the particular nature of this traffic carried by river. The clauses which are applicable to sea traffic are however left out. The above observation is illustrated in the following points by Barwell:

1. *Touch and Stay Clause*—"And it shall be lawful for the said cargo boat within the limits of the said voyage to proceed, touch and stay at any place whatsoever if thereunto obliged by stress of weather or for the safety of the cargo, without prejudice to this assurance."

2. *Perils insured*—The adventures and perils which the said agrees to bear and take upon in this voyage are of the Rivers, and of all other Perils, Losses and Misfortunes that have or shall come to the Hurt, Detriment or Damage of the said subject matter of the insurance or any part thereof arising from the Perils of the Rivers and Inland Navigation.

3. *When grounding no "Stranding"*—"Grounding (*a*) during the time of loading or unloading or (*b*) in the usual course of navigation and management in a tidal river or waterway upon ebbing of the tide, or from natural deficiency of water, shall not be deemed a stranding within the meaning of this policy, even though damage may have resulted therefrom."

4. *Fire*—That is, risk of loss or damage by fire in the case of all interests is hereby insured, but such cover shall be subject to the stipulated limitations.

5. *Deviation and Delay*—That loading shall be completed within seven days and that the said boat shall pro-

ceed without delay and shall not deviate from the customary route nor delay upon the voyage.

6. *Detention and Delay*—That the boat shall not be detained in the canal after receipt of the toll pass, and that no delay shall occur in obtaining such pass.

7. *Labour in the event of accident*—That the assured shall provide the *Manji* or *Charandar* of the said boat before commencement of the voyage, with a sufficient sum of money to enable him to obtain labour and assistance in the event of accident during the voyage.

8. *Exclusive Cargo*—That no cargo belonging to any person other than the assured shall be carried in the said boat during the voyage aforesaid.

9. No smoking or naked lights, or cooking shall be carried in the boat.

10. Special endorsement to cover rail transit, *i.e.*, risk of rail delivery is not covered should the interest hereby insured be brought by Rail, unless specially provided.

Marine Insurance Proper

Now we shall turn to marine insurance proper. Here we find two distinct methods of business, one carried on by the ordinary marine insurance companies while the other by an association of underwriters known as the Lloyd's. Two marine insurance companies working in India have standing contracts with members of the Society of Lloyds. Since the origin of Lloyds is interesting, a few words need be said about it. This association of underwriters originated in a coffee house kept by one Mr. Lloyd. At this coffee house people interested in shipping matters used to assemble and the proprietors of the coffee house made arrangements in the interest of its customers for obtaining shipping needs by the then available means from all places throughout the world. In course of time this organisation grew up and came to be associated with the name of the proprietor of the coffee house. This is a unique institution and carries on business in all ports of the world through its agents. The

principal characteristic of the Lloyds policy is that the parties contracting to insure against contingencies are many. In other words, the insurers are not a single body or association but a large number of different parties insuring a part of the policy. That explains why a policy of the Lloyds contains so many signatures. This arrangement has its merits as well as defects. The advantage lies in the fact that the insured can get more favourable terms. Since each of the underwriters is responsible only to the extent to which he writes his line, and not for the rest of the policy, the risk borne by him is much reduced. For, in the latter case, not only the risk would increase but also the process would become more complicated in view of the fact that each underwriter would have to concern himself about the standing of all others. But since each is responsible for his own share, all this complication can be avoided. The defect of the arrangement lies in the fact that since each is responsible for his own line only and not for the whole policy, the insured, in case of loss and in case of default by one or more of the underwriters, cannot be sure of enforcing his claim to the fullest extent. But this is more a defect on paper than actuality and hence the Lloyds organisation has been able to attain world-wide reputation.

In case of ordinary marine insurance business, the process is entirely different. Three courses are open in this case. In the first place, the insurance company may undertake all risks and retain them on its own shoulders. Secondly, it may undertake the whole risk and shift it on to the shoulder of others by reinsurance.. Thirdly, the insured, if he considers the risk to be a heavy one, may take more than one policy by double insurance. In the first case, if the loss occurs, it will have to be made good by the insurer undertaking the risk. In the second case, the immediate insurer will have to pay compensation to the insured but will be able to recover it from the other companies with whom it has reinsured. In the third case, the compensation will have to be paid by all the insurers to the insured, but the loss will be borne by the insurers *pro rata* according to the amounts of their respective policies so that

the insured party will have no opportunity for earning any profit out of the insurance contract.

As already said, the Lloyds organisation maintains its agents in all the principal ports throughout the world. It is the duty of these agents to supply to their central organisation the following informations:—

(1) list of all ships arriving at, and departing from, the places in which they are posted, and

(2) list of ships passing through the port and the names of places between which they are plying.

Besides, they are expected to do all other things in their power to protect the interests of the members of the Lloyds.

Now we shall consider how policies are taken both in case of Lloyds and in that of other insurance companies. In case of Lloyds all insurance is effected through the medium of brokers, whose remunerations are paid not by the insured but by the underwriters in the form of a certain percentage of the premium. As soon as a party approaches such a broker for insuring his goods, the latter writes on a slip the particulars of the insurance, *viz.*, subject matter, the vessel, freight or cargo, the name of the vessel, the voyage, the period of time and the risks insured against. The volume of risk depends on whether a contract is a F. P. A. one or W. P. A. one. For in the former case, the risk undertaken is reduced considerably in view of the fact that compensation will be paid only in case of total loss, and not for mere damage or partial loss. In this respect a distinction between ship and cargo insurance is drawn. While in case of the cargo, the full risk may be borne by the underwriter in case of total loss, not so in case of a vessel and the owner of the ship is more or less under compulsion to bear some part of the risk himself. The reason for this is clear enough. In case of cargo, the actual control by the owner over the goods ceases as soon as they are shipped. Not so in case of the ship. For, in the latter case, the owner may wilfully destroy at sea a half-damaged vessel or may effect over-insurance of old worn-out vessel which is sure to be lost. If however some part of the risk falls on himself, this type of things may be avoided. The policy taken may be a

valued one or an unvalued one. In case of unvalued policy, if the claim arises, the value of the goods insured must be proved. In this respect the position of the insurer is better in case of ships than in case of cargo, for while in the former case the insurer can estimate the value of the ship, in the latter he has to depend on the information supplied by the insured.

The broker may write on the slip the premium his client is willing to pay. In case it is not written, the underwriter fixes the premium per cent. at which he is willing to undertake the risk. When the slip is prepared, it is presented to the underwriter who writes his line, *i.e.*, who writes on the slip the share of the insurance he is ready to take. In case of Lloyds, the underwriter will never write his line above a certain amount, since the idea is to spread the risk as widely as possible. In this way, the broker takes the slip from one underwriter to another till the full amount is covered. If it is not possible for the broker to get the full amount covered with the members of the Lloyds, he may take it to some company transacting marine insurance business.

Even in case of marine insurance companies other than Lloyds, the marine business is placed through a broker, who by the custom of merchants is an agent of the insured. When the broker takes upon himself the responsibility regarding the solvency of the insurer, he becomes a *del credere* agent. In India, however, the commercial usage differs. Here the broker does not occupy so important a position as the broker does in other countries. He is treated more as *canvasser* than as agent and he works for some commission. He is thus an agent of the insurer, and his function is over as soon as the two parties are brought together. The result of this is that the premium in most cases is collected direct by the insurer and the broker therefore does not enjoy the lien on the instrument as is the case in other countries. This being the case, the slip is not a necessity in India. Once the business is decided upon, the ordinary underwriter is ready to issue a cover-note. In this whole transaction, therefore, the broker does not take any part.

As to the payment of premium, there are no fixed days of grace recognised by all, the nature of the party being

the determinant, much again depending on the discretion of the insurer. When the policy is ready, it is sent to the broker who, however, has a maritime lien over the document till the premium is paid. The trade practice is that in case of policies covering goods, it is handed over to the insured when the latter has to send it to the banker along with other documents, particularly so when the insured seeks advance against, or discounts, the bill of lading.

The Indian Stamp Act has made certain provisions in Section 7 regarding marine insurance which are as follows:—

(1) No contract for sea insurance shall be valid unless the same is expressed in a sea policy.

(2) No sea policy made for time shall be made for any time exceeding twelve months.

(3) No sea policy shall be valid unless it specifies the particular risk or adventure or the time for which it is made, the names of the subscribers or underwriters and the amount or amounts insured.

(4) Where any sea insurance is made for or upon a voyage and also for time, or to extend to or cover any time beyond 30 days after the ship shall have arrived at her destination and been there moored at anchor, the policy shall be charged with duty as a policy for or upon a voyage and also with duty as a policy for time.

The following types of marine insurance policy are in use in the insurance world:

(1) *Voyage policy*—In this case the subject-matter is insured for a particular voyage.

(2) *Time policy*—In this case the subject-matter is insured for a particular period of time, the maximum being 12 months.

(3) *Mixed policy*—In this case the subject-matter is insured both for a particular voyage and for a particular time.

(4) *Composite policy*—In this case the subject-matter is insured by more than one insurance company, the liability of each being entirely separate.

(5) *Floating, Open or Declaration policy*—This type of policy is generally used by merchants who regularly despatch or receive goods. In this case, no separate policy is issued for each consignment. A policy is taken for a huge sum which covers a number of successive consignments or shipments.

The above policies are in use in case of goods. In case of ships the following policies are in use.

(1) *Construction or Builders' Risk Policy*—In this case the subject-matter is insured against any risk of damage during the period of construction. Such policies are generally limited in duration.

(2) *Port Risk Policy*—It covers a vessel for a particular period when it is in the port.

(3) *Fleet Policies*—In this case the owner of a fleet instead of taking separate policy for each vessel covers a number of vessels by a single policy.

The above policies are recognised in law. There is another policy, the wager policy, which has no legal recognition but yet is to some extent in use. This is a case of gambling in which the insured has no insurable interest in the things insured. This policy is also known as Honour Policy or Policy Proof of Interest. Although there is no legal sanction in case of wager policy, yet the obligations underlying it are honoured by the parties concerned with as much force as if it has the support of law. This type of policy is generally used in case of raw products like grains, cotton and manufactured products like sugar whose value is not standardised but fluctuates according to the market conditions and whose ownership passes from hand to hand by the mere transference of documents of title to goods.

A few words may now be said about warranty. The Indian Contract Act has not expressly dealt with the topic. But wherever there is an occasion for this, as in case of the sale of goods and the contract of insurance, the English law is applicable. According to this law, an warranty is an express or implied statement of something which the party undertakes shall be part of a contract. An warranty differs from a condition in this that a breach of warranty carries

the right to damages only while a breach of condition not only leads to a repudiation of the contract but also entitles the other party to sue for damage. Warranties may be express or implied. An implied warranty includes factors like seaworthiness of the vessel, legality of the trade, deviation not to take place from stated route except in certain special cases, *e.g.*, if caused by circumstances beyond control, if reasonably necessary in order to comply with an express or implied warranty, if reasonably necessary for the safety of the ship or subject-matter is insured, or if made for the purpose of saving life or aiding a ship in distress, etc. The express warranties include the neutrality of the ship, date of sailing, etc.

In case of marine insurance, two types of claims arise —With Particular Average and General Average or Free of Particular Average. The claim under particular average arises out of partial loss or damage to the subject-matter insured, whether ship or cargo. The loss is undergone not due to the benefit of all parties but is the result of accident and the incidence of the loss falls on the owner of goods and then on the insurers. The nature of the accident varies. It may be due to storm at sea, collision, fire, leakage, running ashore, etc. In any case, however, the risk is concentreated and cannot be scattered over a wide field. It must, however, be remembered that if the loss falls below a particular percentage, either on each package, or on the entire shipment, no claim for such a minor loss can be made. In case of perishable goods, however, claims under particular average do not arise. Thus when the goods are landed under damaged condition, a survey is made as early as possible by some dis-interested expert as to the nature, extent and cause, if ascertainable, of the total loss sustained.

In case of general average claim, the loss is not accidental but arises because of losses sustained and expenses incurred, under certain circumstances, with a view to save the remaining interests. Since the loss is incurred for all, it must be borne by all in proportion to their interest in the things saved. In other words, the owners of the ship and the cargo will be required to make a *pro rata* contribution towards the loss incurred. Thus before a claim under gene-

ral average arises, a number of things must have taken place. In the first place, some danger common to all parties must occur and it must be essential that some sacrifice must be undergone in their interests. Thus the loss is an intentional one, and not due to any default on the part of the owner. The result of this loss is that the ship and many other interests are saved. All this action in the interest of so many parties must be justified by the master of the ship in a declaration called Protest made before the Notary Public. The whole incident must be recorded in the log book of the ship attested by two witnesses who are the members of the crew. The contribution, in case a claim arises, must be made by all the parties whose interest is saved, but then they may recover it from their own underwriters.

General Average claims in most cases are attested by particular average claims, but not the other way round. Thus when some part of the cargo is thrown off, it does not mean that the remainder would not be damaged, even in some part, which becomes a case of particular average.

Fire Insurance.

The fire insurance business is of more recent origin. Although the idea existed even long ago, the urgency was not felt. However, the risk of fire increased in the years following the Industrial Revolution and hence it was brought into existence. The rate of premium varies according to the risk involved. Experience in fire insurance has however resulted, in all countries to a standardisation in the conditions insisted upon by the insurers. Most of these so-called "standard" forms are in use in this country as well.

Companies doing fire insurance business have an association of their own in each province. It is the function of these associations to prescribe rules and tariff rates from time to time and these are observed by the members, any point of doubt and dispute being referred to the association for decision. Although there is no all-India body to standardise rules and tariff rates for the whole country, yet, in actual working, a good deal of uniformity prevails in all important matters, the difference being of minor details.

The usual type of policy issued by the insurance companies in India is a single policy for a particular period and amount, covering one type of risk only. Apart from this simple policy, a number of other policies of a more complicated nature are in use. One such policy is the declaration policy. In this case a maximum cover is taken for stocks lying in one or a number of godowns and goods may be stored to the maximum extent upto the value of the cover taken but the premium is paid not on the full amount but on the average amount of the stock declared every week or every month. This is very much advantageous in so far as there is no need for separate policy for separate loss or for separate godowns nor is the premium payable on the full cover but only to the extent of goods declared. It is however required by the banker that the average amount at risk at any one time must not fall below a certain minimum. Another type of policy in use is floating policy. This policy may be taken for goods stored in a number of godowns the amounts of which are either fixed or floating. If the value of goods in each godown is fixed and declared, premium will be charged only on that amount. But when the value of goods for each godown is not fixed and declared, but a stock, in whatever godown it may be, and whatever it may be, is to be insured, the premium rate charged is higher by 25 p.c. or according to the tariff rate for the province. The advantage of this type of policy lies in the fact that the goods may be removed by the insured from one godown to another to his convenience and at the same time they have protection against risk from loss or damage.

Goods must be insured for their full value; otherwise the average clause will operate. Under the average clause, if goods have not been covered to the fullest extent but only to, say, 2/3rd of their value, in that case, the insurer will be liable only to the extent of the 2/3rd of the value and not the fullest extent. Here the risk for the uncovered portion which is equal to 1/3rd is deemed to be borne by the insured. Even if the insured takes policies from more than one company by double insurance and supposing that the value of all policies taken together exceeds the actual value, even there the insured cannot make profit out of the

contract, and each insurer will make a *pro rata* contribution. The company always has the option of giving compensation in kind by replacing the same quality and quantity of goods, instead of in money.

In Western countries a number of other types of policies are in use which may be noted in brief. An Excess Fire Policy meets the requirement of traders whose stocks vary in quantity and value from time to time. The normal amount is insured by ordinary policy and the excess by this policy. The difficulty with excess fire policy lies in the fact that the insured may be penalised because of the operation of the condition in the standard policy which limits the contribution to a rateable proportion of the loss. Hence Excess Fire Policy is gradually going out of use and is being replaced by Declaration Policy, about which we have noted above. There is another type, the Adjustable Fire Policy, which is very similar to Declaration Policy but differs in this that whereas under a Declaration Policy the policyholder declares the value of the stock at the end of an agreed period, under an adjustable policy, he notifies the company of his requirements on each occasion when the value of the stock insured undergoes considerable change in upward or downward direction. The Loss-of-profit Insurance Policy, another variety, is a product of the present century and is designed to indemnify the insured for the loss of profits which he sustains because of an interruption in business as a result of fire. The policy covers the loss of net profit, payment of standing charges, and what in Economics is known as the supplementary expenses, and also increased cost of working due to extra advertisement, hire of temporary premises, etc.

Since insurance of goods against fire is insisted upon by the bankers before they allow advances against them, the subject may be considered in brief. The banks do not recognise all insurance companies working in this country. They maintain a list of approved insurance companies and the list is a flexible one according as it is revised periodically from the results of the balance-sheets published by them. Even in case of approved parties, the maximum risk on any one policy and, in case of smaller concerns, even the total

amount that could be insured by it, are fixed beforehand. In case of weak or new concerns, the bankers sometimes demand deposits for placing their names on the approved list. In case of subsidiary concerns, the parent company has to give guarantee. In those cases where the risk is considered to be a heavy one, a stipulation is made that it will be reinsured, thereby fixing the maximum amount of risk for any one company. In some provinces again insurance associations engage the banks to work as chief agents. It is convenient, both for the banker and the insurance company. The banker's work is facilitated in this that when dealing with a single concern, it can get its claims settled immediately and without any trouble. The insurance company also can be sure of the business that it will be able to get from the bank without any worry about the verification of goods or collection of premia. The bankers seek an additional safeguard in this that they insist on the full value of the goods being insured before they make any advance. In this way the insurable interests of the party against the operation of the average clause is safeguarded.

Miscellaneous Forms of Insurance

In the miscellaneous group, mention may be made of mutual insurance companies, co-operative life assurance societies, insurance societies and pension funds mostly connected with government services and post office insurance funds. Of the Indian insurers 33 are either mutual insurance companies or co-operative life assurance societies. A number of co-operative insurance societies other than life are also in existence but they are not very important.

When the Insurance Act of 1938 came into operation, there were 505 insurance societies working in India. But the number of societies that had made initial deposit required by the Act was much less, not being more than 30 per cent. of the total number. The others were in a deplorable condition owing partly to inexperienced and hopeless management, and partly to the operation of unsound schemes which were not testified by actuarial advice. Most of these societies failed to give the initial deposit of Rs. 5,000/-

and went into liquidation either voluntarily or by their registration being cancelled.

Besides the Indian insurers, there are a few pension funds, mostly connected with government services, which are outside the operation of the Act. One such is the Post Office Insurance Fund which was instituted in 1883 in the interest of postal employees. The initial objective being successful, the fund was thrown open to almost all classes of government servants employed in civil duties. The maximum amount of a single policy which was under the Rules fixed at Rs. 4,000/- has of late been revised and the amount has been raised to Rs. 10,000/- from 1920.

Future of Insurance Business

Any serious study of insurance business in India indicates that our insurance concerns in fields other than life are much backward and have a "long leeway to make up". The responsibility for this backwardness lies entirely with the insurance companies themselves though to a certain extent they cannot absolve themselves of it. To a certain extent the Government, the exchange banks and the importers overseas are responsible for this state of affairs. Thus in 1938 when the Insurance Bill was considered, it was suggested that certain provisions of protective character should be incorporated in the Act for giving protection to Indian concerns. The suggestion was however neglected on the ground that it will either be inoperative in case of British companies or *ultra vires* under the Government of India Act, 1935. During the Second Great War, the Government went on taxing insurance companies at the same rate as they did in case of other joint-stock companies, whereas a more enlightened policy would have been to grant liberal tax concessions to them.

The grievance against the attitude of exchange banks was voiced by the representatives of Indian business before the Central Banking Enquiry Committee. Thus it was pointed out by the Indian Merchants Chamber, Bombay, that these banks were literally forcing the Indian exporters to insure their goods with foreign insurance companies.

thereby forcing India to make "payments abroad in the form of insurance premia to the extent of nearly Rs. 2 to 3 crores." It was therefore suggested that the Exchange Banks' Association should lay down standards to which the Indian and non-Indian insurance companies are expected to conform for obtaining the confidence of the exchange banks and that thereafter they should publish a list of such companies who have satisfied these requirements and whose policies should therefore be accepted by all exchange banks without limit. The reply of the Exchange Banks' Association was not encouraging because in their opinion the question was really one for each bank to decide, although in many other matters a common policy has not been found difficult to be accepted. The responsibility of the overseas importers in this respect cannot be neglected. For it is stipulated by them in their letters of credit that the insurance must be effected with a first-rate British company "with the result that exchange banks in India accept the document only if relative goods are covered by a British insurance company. Consequently, a good deal of insurance business which would otherwise be placed with Indian insurance companies by the shippers at this end has thus compulsorily to be passed on to non-Indian insurance companies. Similar difficulties are also experienced by Indian companies under the terms of contract of the London and Liverpool Cattle Food Trade Associations. This kind of restriction was in vogue in respect of colonial insurance companies......but on the colonies having taken up this matter through diplomatic channels, it was removed." (J. C. Setalbad in *The Bombay Investors' Year Book*. 1940). The matter should be taken up by the Government of India. The Indian importers, in so far as they can, should retaliate against this practice. But so long as the major portion of our foreign trade remains in the hands of foreigners, and is financed by non-Indian exchange banks, and so long as our political status does not improve, it is too much to expect a major change in this field.

So far as the Indian insurers in fields other than life assurance are concerned, there are a few things to say. In the first place, they should increase their strength by

building up reserves. This would be a step towards inspiring the confidence of the business public. This is absolutely essential in view of the fact that insurance business is entirely different in nature from the life assurance business. In the latter, appeal to patriotic sentiment is of greater importance. But in the former, the business public must be won over and they must have confidence in the insurance company. And confidence depends upon intrinsic strength which is nothing else than the building up of adequate reserve.

Secondly, the Indian insurance companies should not remain contented with the Indian market but try to spread outside. The field is of course limited. India is at present an importer of insurance service. But in the countries nearer India where native insurance enterprise is in a backward state, the Indian concerns can push, provided they have the will and the resources. The Government has also a duty to back these enterprises. In this way if we can build up some invisible export balance, the present adverse import balance on this account may to a certain extent be counteracted. The development of export trade in this line is not difficult in this that it does not depend on the availability of raw materials, transport facilities, etc., but it requires a number of other factors which are extremely important. "The success of this export trade would firstly depend upon efficiency in administration, so that one might readily sell at an acceptable price in a market full of competition and secondly on a high degree of integrity and sympathy in dealing with the foreign nationals. It might not be possible for several years to come to this country to export insurance to the very countries from which it has been importing largely in the past, but there are our neighbours on all sides, both across land and sea, whom the general advancement of the post-war world cannot leave untouched and with whom, it is expected, our trade in material goods would substantially increase." (*Insurance Year Book*. 1944).

Thirdly, the Indian insurance companies should organise their own house in proper order. In recent years, a large number of big and small new companies have come

into existence and this has resulted in severe competition among them. In many cases, they have taken to underwrite new business without regard to cost and the administration of many of them leaves much to be desired. The progress of many of them has been checked by abnormal expenses of administration, top-heavy administration and consequent high rates of premia which have to be charged. Many of them are financially weak and work with untrained personnel. There are too many central insurance associations and organisations and no single body, like the Chartered Insurance Institute in the United Kingdom, to co-ordinate the functions of these bodies.

It has often been alleged by the Indian insurance companies that the powerful foreign companies are "dumping" insurance by offering lavish commissions to the agents. The government should come forward and protect Indian concerns. But much depends on the efficiency of Indian business. The foreign companies attract so much of business because of better service rendered, because their contracts are fuller and clearer and because their administration is more efficient. The Indian companies would do well to copy the foreign concerns in above matters and appoint better class of agents, instead of trying to capture business by villifying other insurance companies. Agents require a good deal of training regarding principles and plans of insurance, terms of policy contracts, insurance law, etc., and must not be people from ordinary rank to take to insurance business only as a last resort. Besides, for training the public in the utility of insurance, the insurance business should organise effective propaganda as has been done by tea and coffee planters, cement companies, etc.

Finally, it is essential that insurance business should expand in those lines which have not yet been taken up, and yet which are so much suited to Indian conditions and needs. Among these mention may be made of crop insurance and cattle insurance, social insurance in wide sense, including insurance against unemployment, sickness, old age, etc. Among the insurance schemes receiving the attention of the Government, mention may be made of crop insurance and social insurance for seamen which

the Government wants to take up for consideration. Besides, the Workmen's State Insurance Bill was taken up for consideration during November, 1947. The Bill aims to provide for certain benefits to employees in factories in case of sickness, mortality and accident. The Bill however does not include agricultural labour. Regarding reinsurance we have already said a few words. It has also been said that the Post-War Planning Committee has recommended the establishment ot a reinsurance corporation. When the Indian Reinsurance Corporation comes into existence, this long standing grievance of the Indian companies will be removed.

Question of Nationalisation of Insurance Business

The question of nationalisation of insurance business has come to the front in recent years. Those who are in favour of nationalisation of insurance business place their agruments on the following grounds, *viz.*, that in peace time the state successfully runs enterprises like railways, posts and telegraphs, etc., and that in war time the state has successfully interfered in many other aspects of our economy, that the state can carry on more effective propaganda as to the utility of insurance business, that the Indian insurance business will be secured against "dumping of insurance" by foreign companies, and that there will be greater security to policy-holders, better management and services, reduced costs, etc. But above all, insurance is a sort of social service and hence it should be in the hands of the state.

On theoretical grounds, the above arguments seem sound enough; but in practice state intervention in the form of nationalisation of this line of business will not be beneficial. Insurance business is not an industry nor a public utility service; it requires different sets of decisions and they must be quick—in different sets of circumstances which cannot be taken by the civil service but requires a good deal of business experience. The best course for the state would therefore be to leave the matter to private initiative but simply to exercise some amount of control in essential matters, such as, to encourage the service motive and to-

substitute co-operation for cut-throat competition among the various units, to check mushroom growth in their number, to encourage uniform scale of premium rates, contract, etc. That a cent per cent nationalisation of insurance business will be harmful is clearly testified from the failure of the British Postal Insurance Scheme and the Government Life and Fire Insurance Department in New Zealand. In this respect, Mr. C. H. Leach, President of the Insurance Institute, London, has outlined the nature, purpose and scope of state intervention in the following words:

"To admit however that the state has responsibilities to see that certain things are done is not to say that the state should carry them out. It is on this point that difference of opinion arises. Our interest in the social structure is to shoulder the economic burdens of insurable risk, but not the social consequences in so far as they are separable. When the two cannot be divorced, then the possibility of state intervention is bound to arise. Thus we pay for houses destroyed by fire but not for housing the homeless as the result of fires; we pay for burglary losses; but we do not maintain a police force. The two aspects are related but separable.

"On the other hand, the state has laid upon employers statutory liabilities to pay compensation for occupational injury and disease regardless of fault and we shoulder the economic burden for the employer. An injured workman is an economic loss—and perhaps also a social problem to the state—and whilst we are paying the compensation in accordance with the statutory obligations imposed by the state, in many cases factors are at work which affect the economic and social value of the sufferer to the community at large, and it has now been decided by the state that the two are inseparable—and so perhaps they are."

Newly-formed Insurance Companies' Associations

For some time past there is a move in this country for the formation of associations in different lines of business, such as, Bombay Fire Insurance Association, Bombay Underwriters' Association, Bombay Accident Association,

Recently there is a move to combine these Associations as well. Thus the above three have been combined into the Bombay Tariff Organisation. In this, Indian, British and foreign companies are members and in all they number about 120. Another such body is the Indian Insurance Companies' Association whose membership is predominantly Indian. This Association was founded in 1928. 45 Indian insurance companies are its members. Its objects include, among other things, the protection of the interests of the Indian insurance companies in general and of the Indian insuring public in particular. It also aims at bringing into close co-operation among the various Indian insurance companies and at making the experience of established business available to them. It also endeavours to enforce tariffs, bye-laws, rules and regulations and to secure proper representation of Indian insurance companies on various tariff associations both in India and outside. Any insurance company which is purely Indian, and continues to be so, *i.e.*, which is registered in India with three-fourths of its paid-up capital held by Indian subjects domiciled in India and three-fourths of whose Governing Body are Indian subjects, can be a member of this Association. The member companies have to contribute Rs. 500/- to the funds of the Association and a subscription which varies according to the extent of the premium income. The Association is trying to introduce healthy co-operation among the various members by eliminating unhealthy competition and inducing the members to accept business on similar terms. Since 1946 the Association has also organised a Pool in whose business all the member companies participate in equal proportion. Thus in 1946 in the fire and accident section 44 companies shared the business underwritten by the Pool, while 20 companies shared the business in the marine and country-craft section. It is interesting to note that almost all the companies who are members of the Association are also members of the Bombay Tariff Organisation and although in the latter a large number of foreign companies are members, yet these two organisations have shown signs of co-operation amongst themselves. Thus in 1945 the British and foreign insurance companies joined the Indian ones in

voting down a proposal moved by the Bombay Underwriters' Association to withdraw all tariffs introduced by the Institute of London Underwriters. Also the rules of the Indian Insurance Companies' Association bind its members to adhere to the tariff rates fixed by the Bombay Tariff Organisation. Now that the political status of India has changed, it may be expected that this co-operation will be of a more effective and lasting nature.

Conclusion

In matters commercial, all countries, India being no exception, are fast moving beyond national boundaries, towards international co-operation. Thus in September, 1947, an International Marine Insurance Conference was held at Cannes in which India participated. The important subjects discussed at this conference include theft and pilferage, combined marine surcharges, hull business, etc. Another conference had considered earlier the question of establishment of an international reinsurance association which has been established and a committee formed for increasing the membership of the Association. In the first volume of this work we have said about credit risk. In this field the International Credit Insurance Association is already functioning. In a recent meeting the Association considered ways and means for the expansion of credit insurance and for providing ancillary services in the matter of collecting bad debts. It has also decided to establish an office of enquiry at Zurich to increase the efficiency of the Information Department of the Association. In the present state of our insurance business it will not be possible for us to derive full benefit; but our membership of these organisations will help us to reap benefit in future.

PART IV

TRANSPORT

CHAPTER XII

IMPORTANCE OF TRANSPORT IN BUSINESS

The part played by transport development in business is too well-known. We may go so far as to declare that present-day commerce, whatever it may be, is the result of the introduction of mechanical means of transport. The barriers of time and space which had chained down man to a particular place and to a particular occupation are no longer there and a world economy, based on international interdependence has emerged. In the words of Knowles, "The coming of the railway and steamship meant the substitution of a world economy for a national economy, the general results of which were world production, world distribution, world interdependence and world rivalry."

In brief, therefore, it may be said that the introduction of mechanical means of transport helps consumption, production and distribution. The producer to-day does not produce for the home market alone. In fact, the foreign market is considered more valuable by each country as can be seen from the present scramble for market. For, control over world market means the leadership of the world. And that is why in every independent country the productive and distributive machinery is backed by the fullest support from the state, and imperialism to-day implies not political domination for its own sake but economic exploitation, for, while the former may provide mental gratification to the rulers, the latter is needed for the prosperity of the country in general, and maintenance of the capitalistic system in particular. The tendency to-day is however in favour of a gradual contraction of world market, now that industrialism is developing even in the backward countries of yesterday and that the more advanced ones are trying to be as much self-sufficient as possible. But even then it cannot be said that the days of international interdependence belong to the past.

The international or inter-regional division of labour is

a direct consequence of the coming of world economy. The idea of absolute and comparative cost advantages could only come when goods could be supplied between different countries or regions at a cost which, added to the costs of production, remain lower than the cost of production at home. This cheapening of freight therefore has helped world distribution. This in its turn has affected the standard of living of all peoples. In the progress of civilisation, up to a certain stage, wants are created; they are the results of progress. As a nation progresses, it raises its standard, and for that, its wants. But after a certain stage is reached, it is want that leads to progress, human ingenuity being what it is. Man is never satisfied with his own position, as soon as the old barrier of isolationist economy is removed. No part of the world to-day is isolationist, nor can it remain so. The world forces are so powerful that all the parts must be pulled up, sooner or later, unless they come up of their own efforts. And this is a doing of the mechanical means of transport.

The truth of the above statement may be realised from a study of the economic history of the world. Take the case of countries which to-day are noted as world's biggest industrial powers, say, Britain, the U. S. A., Germany or Japan, or even Russia. In each case it will be found that industry and trade had developed after the coming of the railways. Take the case of Britain. Till the 18th century there was no such thing as the road system, although in our country we could claim something of it even earlier. Earthen tracks were the commonest routes and they were attended with so many dangers that "it is not surprising that people who were adventurous enough to make tours in England wrote of their adventures as if they had been to Central Africa." The same is true of Germany and with development of railways, Germany became a mediterranean power and the principal distributor in Central Europe. In America what is known as the Westward movement is also the result of revolution in means of transport. This opening of the American continent with the coming of the railways has been 'the' factor in the commercial and industrial development of the United States.

The contributions of Britain in the development of world economy are immense. It is Britain that has provided money and material and even management in developing inland transports as also oceanic transport. She has not only invested huge sums in foreign loans, but also has supplied rails, ships and even sent companies for railway construction. In fact, upto the middle of the last century, or even later, British leadership in this respect remained unchallenged. Thus Sir George Paish wrote: "In providing capital for railway construction this country has performed a great work. Most of the loans to Colonial Governments have been for railway construction, the major part of India's indebtedness to us is for railways, and a portion of the loans we have made to foreign governments have been used for a similar purpose. But beyond the money for railway construction which we have supplied to Governments, we have formed a great many companies to construct and work the railways in other lands." These foreign investments by Britain of course brought a huge income and won her position of world financier. According to the same authority, Britain's income from railway companies working in the colonies, particularly Canada, was £7600000 a year, from those working in India nearly £4800000, from Argentine, Brazil, Uruguay, Mexico, Chile and other foreign countries over £13000000 and from the U. S. A. about £27 million per year.

The introduction of mechanical means of transport not only led to a rise of world economy, but necessitated revolutionary transformation in the national economies of different countries. Thus European agriculture was considerably affected by the cheaper supply of foodgrains from the new world. In fact, this led to the great depression of 1875 and subsequent years from which British agriculture never recovered. Even in European countries a lot of transformation was called for. The rise of the U. S. A., Germany and Japan as world industrial and commercial powers from the beginning of the present century and particularly since the first Great War has caused further transformation essential. The rise of industrialism in the backward countries of the world will be a step further in world

economic transformation in so far as this process, by reducing the world markets, would make imperialism wither away or at least unnecessary.

Finally, development of means of transport has resulted in the mobility of the labouring population as also of many others outside their own countries. On the one hand, this has resulted in the Europeanisation of the whole world and on the other has been the fruitful cause of so many race conflicts. The latter applies particularly to the movement of Asiatic nations into America and even in Africa. This is however a separate issue and need not be pursued here.

So far as India is concerned, opinion has differed as to the economic consequences of the modern transport facilities, particularly railways. One section has argued that the coming of the Railways has not only relieved the country of the famine problem to a considerable extent but has facilitated the growth of large-scale industry and modern trade. It is argued further that even her agricultural economy has gained in so far as the prices of most agricultural products produced on a commercial scale are to-day determined not by national factors alone but also by international factors and by world prices for them. The other section holds an altogether different viewpoint. Thus they argue that the manner in which railway construction was undertaken and the policy pursued in matters of railway rates have not only imposed a long financial burden on a poor economy but also hampered the growth of industry and is doing so even to this day. This point will be made clear in the next chapter when we shall briefly consider the expenses incurred in railway construction and the prejudicial rates policy pursued. While not denying the benefits gained by the country owing to the coming of the railways, we cannot admit that the same benefits could not have been obtained at a lesser cost. On the contrary, India would have been relieved of a considerable financial burden and her industrial development would have been more rapid if a different policy was pursued in matters of railway construction and railway rates.

Some critics have however gone to the excess and have denied even the economic benefits obtained from the railways. They have argued that not only the direct financial

results but also indirect economic consequences have been disastrous. Vera Anstey has summarised their contentions as follows: "Far from railways having helped the Indian producer, they assert that the industrial workers have been ruined by the competition of cheap machine-goods, goods of foreign origin, brought to their doors by the railways, that the export of foodstuffs and of raw materials urgently needed within the country has been promoted, and that consequently India's economic balance has been upset and her independence undermined." These are the principal charges against the railway system. We cannot say that they are totally baseless. But at the same time we must admit that the coming of the railways and the consequent economic transformation was a part of the world forces and could not altogether be resisted, even though delayed. The point is that the economic transformation could not be in the same lines as would have served the interests of the nationals, as it has been in case of other free countries and consequently the price paid by this country for this innovation of science was too high. Anstey has however misunderstood these critics as arguing in favour of a "static,......as opposed to a dynamic, social ideal." She says, "The desire for the development of new contacts and institutions with the object of reorganising society upon a higher plane prevails in the West and necessarily includes the desire for progress in the economic sphere...... Not so in India where the ideal of social conservatism including the ideal of a stable non-progressive economy (based upon local self-sufficiency and the cultivation of peasant arts and artistic handicrafts) still appeals to many." This is however to make the point too far-fetched. To a certain extent the political disequilibrium following upon the decline and fall of the Great Mughals was responsible for this. But to say that India is a believer in a static ideal is to indicate a total non-understanding of our social and economic ideals.

Whatever the broader economic and financial consequences may be, there is no doubt that the coming of the railways have to a large extent affected the social organisation, and in many respects, these changes have been desirable. Thus the railways by increasing the mobility of

persons have weakened the joint family system. The small scale agriculture of old days has changed and since agricultural products—having big bulk of smaller value and being perishable in nature—have, with the coming of the railways, found a much wider market, they are being raised on a commercial scale. No less important is the effect on the cottage industry. A large number of them have declined owing to the competition of cheap standardised products which had been imported even earlier but whose flow affected the interiors much after the coming of the railways It is of course true, as Anstey points out, that the railways "have been an integral part of economic development and that even if incidental evils have been involved, energy should be directed towards remedying such defects rather than towards blaming the railways." But the fact remains that political factors have not only made railway construction costly for this country but have also stood in the way of the best utilisation of railways and the economic and social transformation in the desired channel.

CHAPTER XIII

LAND TRANSPORT

Road System

India being a vast country, the system of her transport is equally varied. All of them however are not equally well-developed but are in the process, indeed a slow one, of development; but each variety serves the need of divergent population living in this vast land and hence has utility of its own.

Road transport in India is very old, as it is old in many other countries. But the speciality lies in the fact that India had an extensive inland and foreign trade which was carried on through the road system of communication. We have seen in the introductory chapter that India's trade across the land frontier, though much less in volume and value than her oceanic trade, was by no means negligible. The whole of it was carried on by caravans. In fact, this was the most common means of transport till the coming of the railways in the middle of the last century. The usual means of road transport are, as they were, head-loads over short distances or even *bahangi* or *bhar*, and the various pack animals according to their availability and suitability in different regions. They are the donkeys, bullocks, buffaloes, horses and camels. The demand for these pack animals increases during the rainy season on account of the deterioration of the *kachcha* roads and the consequent cessation of vehicular traffic. In the interiors, in many parts, the modern transport system has not made much headway and in those regions even in dry seasons the use of pack animals is very common. The carrying capacity of the pack animals is not the same but varies according to the condition of the road, the season and the strength of the animal itself.

The commonest means of transport in the interiors and

also as a link between the interiors and the town markets is the bullock cart of crude and primitive construction. The carrying capacity of a cart is much in excess of the carrying capacity of pack animal working independently, *i.e.*, a cart pulled by two bullocks will carry much more than the two bullocks themselves can. Even then it is not uniform, varying as it does between 12 to 40 mds., depending upon the condition of the road, the design of the cart and the strength and number of animals yoked. In recent years, the construction of a cart is undergoing some modernisation in certain places with results favourable from the standpoint of efficiency. Thus in some places the carts are being equipped with pneumatic tyres which surely have increased their speed.

Whatever that may be, the road system of the Moghul days which had provided a number of good roads for communication, some trunk roads and made arrangement for sending postal informations, had fallen into decay in the days when the stable political system was disturbed by the decline of the Moghul Empire and by the coming of the British. The new rulers being busy over other matters were not very much concerned with the inland communication. Lord William Bentinck made some efforts to improve the road system in the north; but no far-reaching scheme was carried out by him. It was only during the days of Lord Dalhousie that any serious attempt was made by the new rulers of the land to improve the system of inland communication, and it is well-known that he not only improved and extended the road system but also reorganised the postal system, introduced telegraph, established Public Works Department and started railway construction.

The introduction of motor trucks in road transport has so to say caused a revolution in it. Not only have the speed of transport and distances covered increased, but the motor trucks have proved to be severe competitors to the existing railway system as well and have led to the most important question of rail-road co-ordination. The motor traffic has enormously increased since the first Great War. By the end of the 19th century the total road mileage of India reached about 170000, of which 37000 miles were metalled and

hence suitable for motor transport. The figure has increased since then; but as yet the increasing traffic requires a further extension of roads suitable for motor transport throughout the length and breadth of the country.

One important factor in the development of roads has been the development of railways. For, roads in many cases have served as feeders rather than as competitors, and as the *Royal Commission on Agriculture* wrote, there has been "demand, which remains to-day far from being completely satisfied, for bridged and metalled roads at right angles to the railways and giving access to them in all the seasons of the year". After Lord Dalhousie, for some time, roads had fallen into the background and interest in them was revised by a progressive policy of local self-government pursued by Lord Mayo and Lord Ripon.

From the standpoint of types, there are three types of roads—best roads, second class roads and third class roads. The best roads are motorable throughout the year. The second class roads are not provided with permanent bridges and third class roads are just usable by ordinary traffic, not vehicular traffic, only for a few months in the year, and not during rainy season. There are four trunk roads connecting Calcutta with Khyber, Calcutta with Madras, Madras with Bombay and Bombay with Delhi. Southern India is more well-served with roads than northern India where Rajputana, Sind, Orissa, Bengal and some places in the Punjab are still in worse conditions about roads. From administrative standpoint, the roads in India may be placed under three categories—roads maintained by the Public Works Department (46827 miles), those maintained by the Municipalities (18433 miles) and those maintained by the District and Local Boards (248921 miles). The last type, particularly those under Local Boards, are mostly unmetalled roads.

The above figures may appear big enough. But, really speaking, for a country as big as India, the existing road mileage in India is rather meagre and India is one of those countries which are worst supplied with inland communication. This inadequate supply of roads has been a pull-backward influence to the development of our internal trade and hence of our agriculture. For, "transportation is an

integral part of marketing and modern commercial development tends everywhere to enhance the value and importance of good road communication." Not only is the existing road system inadequate for our present purpose, but whatever we have got is mostly under inefficient management as well. This is mostly true of roads under the local bodies. Partly due to inadequate finances, but mainly due to the inexperience and apathy of those in charge of local self-government, this work has proved to be a failure and whatever money may be budgeted for road construction and improvement is squandered away to no benefit for the tax-payers. This part of the administration is to be treated as a failure and should be taken over by the Provincial Governments.

Although the supply of roads remains inadequate, the motor traffic on the existing 'best' roads has increased enormously in the present century, particularly in the years following the first Great War. "Imports of motor cars rose from some 3000 in 1913 to a post-quinquennial average of about 8000 and to over 19567 in 1928-29. Imports then declined to 6201 in 1932-33, rising again to 9759 in 1933-34. Of these 55 p.c. came from the United Kingdom and 40 p.c. from the United States and Canada combined. The import of motor omnibuses, vans and lorries has fluctuated similarly. 5496 being imported in 1933-34, 90 p.c. coming from the United States and Canada combined." (Anstey). This enormous increase in motor transport not only led to a deterioration of roads but also raised the financial problems of maintenance and improvement of these roads and the problem of rail-road competition, particularly in those regions where the competition has been severe. Some provinces have already established what are known as Road Boards, *e.g.*, Madras, Bombay, U. P. and Punjab, the Boards for the former three provinces being advisory in character. The Road Board in the Punjab is entrusted with the additional function of distributing the grants-in-aid received from the Provincial funds. The above problems however were in no way solved and at long last the Government of India appointed the Road Development Committee in 1927. Among other findings, the Committee pointed out that "road development in India is passing

beyond the financial capacity of Local Governments and local bodies, and is becoming a national interest, which may, to some extent, be a proper charge on central revenues." Be it noted that it is a recognised principle that the cost of road improvement and maintenance should not be left entirely or even mainly to the local Governments. Thus in the U. S. A. since 1920 the states embarked on great road-building enterprises and the Federal Government has helped this with grants of enormous funds. The Federal Government adopted this policy on a small scale in 1916 but it reached its culmination with the passage of the Federal Highway Act of 1921. The consequence of this state activity was that the U. S. A. had about 3 million miles of roads in 1930, as compared with only 314181 miles in total and of that only 82299 miles metalled roads in India in 1936-37. Hence the *Road Committee* urged the Government of India to pay a more systematic attention to the question and to build up a Road Fund out of an increased duty on petrol for improving the roads. The Committee also favoured contributions from the railways to the proposed Road Fund in so far as they benefitted from the feeder roads. Accordingly the Central Road Development Fund was created in 1929 and in the first five years, the fund had accumulated slightly more than Rs. 5 crores, of which a considerable portion was distributed for road development in accordance with certain conventions decided upon by the Legislative Assembly.

The first five years for which the convention was ratified by the Assembly ended in 1933-34. By a further resolution it was made more or less permanent with certain modifications as to the reserve to be maintained by the Central Government for the use of the less developed provinces. Previously it was 10 p.c., which under the new resolution was made 15 p.c. The modified resolution also provided for the service of the loans for road development purposes. In 1937 the Central Assembly has introduced certain important changes on the basis of the recommendation of the Transport Advisory Council regarding the allocation of grants from the Road Fund to the Provinces which have gone a long way towards increasing the power of the Central Government.

Under this new Resolution, the Governor-General-in-Council is empowered not only to retain the shares of the Governor's Provinces until they are required for actual utilisation, but also to resume the whole or any part of the sums in their hands provided the province delays without reasonable cause to utilise them for road development or it fails to take such steps as might have been recommended by the Governor-General-in-Council for the regulation and control of motor vehicles. The introduction of the Provincial Autonomy in 1937 has not led to any friction between the Centre and the Provinces on this account.

A certain amount of co-ordination between the Centre and Provinces has also been secured through periodical road conferences in which the representatives of the Local Governments and Government of India meet and exchange views on subjects of common interest.

When all this is said and done, the results achieved are extremely meagre when compared to our needs, and whatever development has taken place is haphazard and without any previous planning. As the *Technical Sub-Committee of the Post-War Reconstruction Committee* appointed by the Government of India writes: "There has been no road planning in India and the evolution of road administration has been on the assumption that roads are suitable for devolution. Roads are a Provincial subject and responsibility for the bulk of the roads upon which rural welfare depends has been thrown to local bodies with bad results. 'Provincial' metalled roads have been developed as the skeleton of a system convenient to the administration and the more influential classes, while rural roads has been generally neglected. There has been no expansion or improvement commensurate with the growth of the population and the movement of commercial crops. That more and better roads are a necessity that will make for social, political and economic progress cannot be disputed."

It must be pointed out here that the Government of India's post-war programme for road development is quite inadequate for the purpose of this country. Under the programme roads have been classified into four categories—national highways, provincial highways, district roads and

village roads. The Central Government has chalked out a provisional programme of 18000 miles of national highways and the central road plan fixes an expenditure of Rs. 450 crores for a period of 20 years. About other roads nothing is known as yet. This is not at all encouraging.

A few words may now be said about the working of road transport and its problems, particularly those connected with rates. So far as the conveyance by the bullock carts or other pack animals is concerned, there cannot be any uniformity in rates. They depend on the load, the distance covered, nature of goods sent and also the possibility or otherwise of availability of work on return journey. The season and the condition of roads are additional factors. The rates are mostly fixed by bargaining between the two parties. In big business centres, however, where traffic is regular and considerable, competition however leads to a crude form of standardisation in rates which are generally charged by all.

While this haphazard rates structure prevails, so far as the old means of road communication are concerned, the same is also true of the motor vehicles. There is as yet no such thing as a uniform rate structure which is to develop in future. There are several reasons for this. In the first place, the unit of operation in road transport has always been small, particularly so in this country. The result of this has been that small units of motor transport have always attracted a considerable number of owner-operators in this field. This has all the more been facilitated by the hire-purchase system of financing. Many of these people have no idea as to the cost incurred. Leave aside the principle of 'what the traffic can bear', even the cost of service principle becomes difficult to follow by them in view of the lack of information about cost. The result of this has been that "most road rates are rates quoted for particular consignors for particular trips rather than rates worked up into a generalised schedule". Secondly, road transport being highly competitive in nature, the maintenance of scheduled rates has been found difficult. Only where the competition is of a limited character or where there has been some union or combination, some sort of standardisation of rates may have been possible. Hence motor transport cannot obtain the

advantages of the principle of what the traffic can bear in its rate making which the railways can do, nor can it discriminate in favour of certain goods against others. For, the goods available to motor transport is already limited. They are those classes of goods for which the Railways have fixed a high rate of freight while the other competing means of road, or even river transport are not available at less cost. The field in which motor vehicle can work is thus limited. Another factor standing in the way of a uniform rate structure has been the lack of balance between the up and down trips in many places. This difficulty does not arise in case of railways. Hence in motor transport, different rates have to be charged for different trips.

While there are difficulties in the way of the formation of the uniform schedule rates in road transport, much of this difficulty is due to the existence of too many owner-operators having no combination amongst themselves. This in its turn tells adversely even on the working of the motor transport system. It is essential therefore that not only the rates structure but also the working conditions including speed, load and timing and also classification which at present are arbitrarily determined should be regularised and regulated by some suitable machinery. Under the guidance of this, some sort of union should also be encouraged between the various motor services so that the uneconomic units may either totally disappear or submerge themselves into bigger units. It should also be seen that there is no unnecessary duplication of traffic over long distances. This regularisation of rates and other conditions of work will be of much help to the business community as well in so far as they will give a clear indication as to the cost incurred in this particular form of transport. These reforms are long overdue and should be introduced as early as possible.

Railways

Organised means of transport in modern sense were first introduced in India in the middle of the last century. The coming of the mechanical means of transport meant a considerable change in our economy. The change however

could not be so very beneficial as it has been in case of some other countries. There were reasons for this. In the first place, at this period of our history, there was no political stability and hence economic considerations assumed secondary importance. Secondly, the introduction of the mechanical means of transport took place not so much for economic as for strategical reasons, for the preservation of the Empire which the company had been able to build up. Thirdly, the Guarantee System under which the railways were constructed by foreign companies not only led to recklessness and extravagance but also meant a quasi-permanent load of foreign obligations on the Indian masses. And finally, the peculiarity of the Railway Construction and the step-motherly rates policy led to the one-sided flow of raw materials out of this country and import of foreign manufactured products, a deficiency from which we have not recovered even to this day. That is why I say that although the coming of the railways meant a transformation of our economic life, yet it could not be so very revolutionary nor so very beneficial as it has been in case of other countries.

The railway system in India is neither uniform nor under one management and control. The difference is chiefly due to the variations of policy adopted by the state towards railway construction from time to time and also to the existence of different administrative units in different parts of the country. Broadly speaking, the principal railways in British India fall under three categories—first, those owned and worked by the state, *viz.*, E. I. Rly., B. & A. Rly., North-Western Rly., and G. I. P. Rly., second, those owned by the State but worked by the Companies enjoying a guarantee of interest from the Government on behalf of the latter, *viz.*, B. B. & C. I. Rly., Madras & Southern Mahratta Rly., Bengal Nagpur Rly., and South Indian Rly.; and third, those which are the property of private companies and are worked some by the owning companies, some by the state, and some by companies working state-owned system, *e.g.*, Bengal & North-Western and Rohilkhand and Kumaon Rly. systems. Besides, there are a number of railways which are the property of Indian states or of District Boards or are constructed under a guarantee of minimum interest given by

such Boards. The following table indicates the classification of railways, the route mileage, gross earnings and working expenses of the railways in 1933-34:

	Classification.	Route mileage on 31. 3. 34	Total Capital outlay or at charge (Rs. lakhs)	Gross Earnings (Rs. lakhs)	Working Expenses (Rs. lakhs)
1.	State lines worked by state	17676	50064	5406	3963
2.	State Lines worked by Cos. & Indian States ...	13999	28927	3466	2071
3.	Branch Line Company's Railways under various terms	1586	1177	113	63
4.	Subsidised Co.'s Lines ...	2169	1975	303	146
5.	Indian State Lines worked by Indian States . .	5214	3964	486	290
6.	Indian State Lines worked by Cos., or others ..	1659	1291	141	80
7.	Companies' Lines Guaranteed by Indian States	39	16	1	—
8.	Unassisted Companies & District Board Lines, etc.	518	274	50	32
9.	Lines in Foreign Territory	74	234	33	19
10.	Miscellaneous Lines and adjustments ...	17	519	41	289
	Total ...	42953	88441	10040	6953

Indian States Railways

In recent years, some of the native states in India have grown conscious to the need of improved railway communica-

tion within their territories and have provided for the same. We have seen above the total mileage of railway lines under the states in one form or another. The following are the more important railway lines under Indian states.

1. The - Mysore-Arsikere and Bangalore-Chik-Ballapur Railways in Mysore, the latter line being financed by an Indian Company under a guarantee from the Mysore Government—Opened in 1917-18.

2. The Quilon-Trivandrum line in Travancore—opened in 1917-18.

3. The Cochin-Shoranur Railways, constructed out of the accumulated state balances.

4. The Kazipet-Balharshah Section of H. E. H. the Nizam's State Railway was opened for traffic by the end of 1928.

5. The Hanumangarh-Sadulpur Chord of the Bikaner State Railway.

6. The Shimoga-Arasalu-Anantapuram Section of the Mysore State Railway.

7. The Shamdari-Bhiumal Section of the Jodhpur Railway.

8. The Bidar-Purli Section of H. E. H. the Nizam's State Railway.

9. The Fort Abbas-Baghad (Hotwala) Section, financed by the Bahawalpur Durbar and worked by the N. W. Rly.

10. The conversion of the Shoranur-Cochin Rly., from metre gauge to broad gauge.

District Board Railways

The district board railways are not of any great importance as the total mileage covered by them indicates. Wherever they exist, they work more as branch and feeder lines supplying traffic to the main lines. These lines are constructed under an agreement by which the state guarantees a minimum return on capital, or alternatively, the state undertakes that the line shall receive a rebate from the earnings of the main line which will be sufficient to bring the total earnings of the branch company to a particular

amount. This is the guaranteed minimum to be given to the branch or feeder lines; over and above this, the branch lines also participate in the profits. This scheme of developing branch lines or feeder lines originated about half a century back and a number of lines were constructed under these special concessions. But the policy was not favoured by the Acworth Committee and was ultimately abandoned in 1925 and efforts were made to reduce their number. Some of these Railways have been acquired by the Government, *e.g.*, the railways constructed by the Tanjore District Board and also the Salem-Suramangalam line built by the South Indian Rly., out of funds provided by the Salem District Board. Other district board railways wherever they are working are being financed by a special cess levied by the District Board throughout the district.

Railways in British India—A Brief History

The history of railway development in British India is not uniform but falls into a number of distinct periods. We are not going to discuss the merits or otherwise of these different experiments at different periods of time but simply indicate the different phases. The first phase which is known as the Old Guarantee System begins from 1844 and ends in 1869. The characteristic feature of the period is that the initiative at railway construction came from the private companies but their efforts were backed by government guarantee as to the interest ranging from 4½ to 5 p.c. on capital invested and a number of other concessions, *e.g.*, the free grant of land, the government in turn reserving certain rights, *e.g.*, powers of supervision and control practically in all important matters and option of the government to purchase the lines after 25 or 50 years after payment of compensation to the companies equivalent to the interest of the companies in those lines. The Guarantee System not only led to extravagance on the part of the companies but also a drain on government resources in meeting the guaranteed interest. The guarantee left hardly any incentive for the companies to economise. Later critics have seen little justification in government guarantee of such a high rate of

interest and others have gone so far as to declare that British capital which was needed for railway construction would have come even without any guarantee. However, the old policy was given up in 1869 in favour of one of state construction and management. Under the changed policy, considerable amount of economy could be effected in matters of cost. But the government being more busy with other matters, like the famines, the Afgan Wars, etc., had scarcely sufficient funds left for railway construction, particularly so when there was no such thing as separate railway finance. Hence the adequate and continuous provision of funds became the main problem for the Government. At the same time an urgent programme of railway construction was needed and even recommended by the Famine Commission for fighting against the famines. Hence the government decided once more to take the help of the companies, though this time on less onerous terms. Thus commenced the period of New Guarantee System which continued upto 1900. Under this system, the lines were from the very beginning the property of the Secretary of State for India, although the rate of interest was guaranteed of course at a low figure and the companies were to manage the lines after construction. In case of lines under the Old Guarantee System, the Government in most cases exercised their right to terminate contract as soon as the contracts expired. The old guarantee railways were acquired by the government at the following dates:—

1880. East Indian Railway.
1884. Eastern Bengal Railway.
1885-86. Sind, Punjab & Delhi Companies' Lines.
1886. Oudh & Rohilkhand Railway.
1890. South Indian Railway.
1900. Great Indian Peninsular Railway.

This however should not be taken to mean that the state adopted a full-fledged system of state management. It was yet to come. Only a few lines were transferred to state management, *e.g.*, the East Bengal, the Oudh-Rohilkhand and the Sind-Punjab Railways. But in other cases, they were again handed over to the companies for management though under revised conditions of contract. The same

principle was applied in case of lines constructed under the New Guarantee System, the Government thereby securing more favourable terms and financial conditions. By 1900, the greater part of India's present railway system was complete. About 10000 miles of lines were added during 1900-1914, particularly under the stimulus given by the recommendations of the Mackay Committee; but they were mostly branches or feeder lines or links between the main lines. No new project was undertaken, although the Mackay Committee had laid down a standard of £12500000 as the annual programme for capital expenditure on railways, subject of course to periodical revisions in the future.

The work of the railway system however had proved unsatisfactory and a number of enquiries took place between 1900 and 1914 with the object of devising ways and means for introducing a greater degree of elasticity in the railway system. The only important result that followed on the report of Robertson was the Constitution of a Railway Board to which all functions of construction and management of state railways, hitherto undertaken by the Public Works Department, were transferred in 1905. The Board consisted of a chairman and two members and a secretariat establishment was created "to secure expert consideration of the larger problems of railway administration and finance and a more settled and continuous policy in railway construction." But the results of this new experiment were not encouraging nor could the new Board increase the efficiency of the railways to the extent expected.

The coming of the first Great War and the strain caused by it on railway system during war years meant an "utter breakdown and rapid deterioration of the railways." The strain imposed on the railways by the large movement of troops and materials was too much. It increased all the more because of shortage of shipping in the coastal trade, the entire traffic depending on railways. This led to a heavy depreciation; but neither the services could be increased nor the existing lines maintained by repairs and renewals for want of railway materials which were not coming from England. The Government being too much concerned with war financing had hardly any resources left for the purpose.

The result was that "there are scores of bridges with girders unfit to carry train loads up to modern requirements; there are many miles of rails, hundreds of engines, and thousands of wagons, whose rightful date for renewal is long overpast." The sufferings of the public were particularly great; for, immediately on the outbreak of the War, the railways were brought under drastic regulations and were controlled entirely for war purposes. This, side by side with the break-down of the railway system, made the public hostile to the management of the greater part of state railways by companies of British domicile and the demand for state ownership and state management became almost irresistible. The public demand was that the railways should be completely nationalised and worked not with a view simply to earn profits which mostly go to non-Indians, but according to the needs of the Indian travelling public and Indian trade and industry which have so far been totally neglected. Another cause of public grievance was the inefficient working of the Railway Board. The matter came to the forefront in 1919 when the contract with the East Indian Railway Company came to an end. The contract was no doubt extended on existing terms up to 1924, but a Committee had to be appointed to investigate and report on these various questions—the Acworth Committee as it is known.

The main issue on which the Acworth Committee was to report was state management *vs.* company management. Sir William Acworth was himself a great devotee of company management and had pronounced himself against state management of railways. But conditions in India were entirely different and in such matters as this, practical considerations, rather than theories, should be the guide to policy. The story in other countries may have been different; but they are irrelevant for our purpose. The existing state of affairs have been so unsatisfactory that the Committee was of opinion that the existing system of railway management by companies of foreign domicile must go as early as possible. But the Committee was divided as to the nature of future railway management, one group favouring direct state management of state-owned railways and the other group favouring management by companies with an

Indian Domicile. The public opinion in this country had all through favoured state management as being more conducive to their interest. It is considered that the present grievances against the working of the railways, *viz.*, disabilities under which the third class passengers have to travel, the unfair structure of rates and fairs which had worked against the interest of Indian business, the preferential treatment accorded to British firms both in matters of store purchase and various other discriminations, etc., can only go under state management. The technical majority of Acworth Committee had pronounced themselves in favour of Indian public opinion and had recommended state management with certain safeguards for avoiding the evils connected there-with.

Inspite of this recommendation by the Acworth Committee, no definite policy with regard to the nationalisation of railways has been adopted as yet. The following railways have however been brought under state management on the termination of contracts with them:

1. East Indian Rly.—1924, December.
2. Great Indian Peninsular Rly.—1925, June.
3. Burma Rlys.—1929, January. (They have been separated from the Indian State Rlys. with effect from 1st April, 1937.)
4. Southern Punjab Rly.—1930.
5. B. B. & C. I. Rly. } —1942, January.
6. Assam Bengal Rly. }

The termination of contract with the Bengal Nagpur Railway is due in 1950. Thus although the greater part of our railways have passed under state management, we have not altogether been free of the mixed system which must go. It is liked by none on the ground that it is "complicated, cumbrous, inelastic, conservative, extravagant and bureaucratic, *i.e.*, combining all the disadvantages of nationalisation with those of private management." A definite policy of state ownership and state management should be adopted and the actual management should be left in the hands of experts who should keep in touch with the public opinion, particularly that of the business community.

The above was the question of policy. Even in those lines where state management had already come, the grievances of the public, particularly business public, were by no means negligible. Not only was that the Indian railway system was inadequate as could be seen from excessive congestion of traffic, but that the poor finances of the government and anomalous status of the Railway Board were weakening the efficiency of the entire railway system. It was said that the Railway Board was too overloaded with routine work and its hands were tied by too many restrictions that it could neither influence the general policy nor redress public grievances. According to the recommendations of the Committee, therefore, a Central Advisory Council and a Local Advisory Committee representing public interests were formed in 1922 and a Rates Tribunal was appointed in 1924 with a view to revise all railway charges. The Railway Board itself was reconstituted in the same year. Henceforth, the Chief Commissioner would be the President, and there would be a Financial Commissioner and two members. The Chief Commissioner was made solely responsible for arriving at decisions on technical matters and for advising the Government on matters of Railway policy.

The year 1924 is noted in railway history of this country for the separation of railway finance from general finance, as recommended by the Acworth Committee. Such separation was called for on various grounds. It was considered that this separation would not only stabilise the general budget by removing the most uncertain element from it, *viz.*, railway profits which had fluctuated from year to year, but also would make it possible for the railways being run on commercial basis when it would no longer have to depend on the exigencies of the general budget. This separation would however mean a loss to the general budget in so far as railway profits would not be available under it. Besides, the condition of general finances were not very sound after the first Great War. The Inchcape Retrenchment Committee of 1923 therefore emphasized the advantage to the central finances as well as to the railways of instituting a regular contribution from the railway finances to the general finances. The Legislative Assembly also accepted the sepa-

ration of railway finances from general finances on the condition of ensuring to the latter a definite ascertainable annual contribution from the former, the contribution being the first charge on the net receipt by the railways.

The financial position of the railways since 1924 may be noted in brief. Each of the six years, 1924-30, saw a net surplus in the earnings by the railways, the total surplus being about Rs. 53 crores. Each of the next six years, 1930-36, resulted in a net deficit, the total deficit being about Rs. 42 crores, the reasons for this being the trade slump, drive towards greater economic self-sufficiency in different parts of India and the world, increasing motor and sea competition and rise in working expenses. Thus for the 12 years there was a net surplus of Rs. 11 crores. According to the Wedgwood Committee, "Both in the period of acute depression and in the year of partial recovery succeeding it railways in India showed more favourable reserves than the railways of other countries, which passed through a similar crisis." But the Committee pointed out that capital expenditure has been incurred in India on too lavish a scale in the six years of prosperity, without proper regard to the comparative needs of different aspects of administration, *e.g.*, excessive outlays on stations, workshop, etc., and for providing special amenities to first class passengers. "Every capital scheme has to be justified and should be limited by reference to the narrow resources of a country, not by the practice of richer and more rapidly-growing country." The Wedgwood Committee had recommended the abolition of contribution to general revenues so that the railways might stand on their feet. The Central Legislature therefore decided to write off the arrears of railway contribution altogether. The Niemeyer Award however looked forward to an improvement in the position of the railways and recommended that when surplus was obtained, contributions would go to the general revenue. In 1937-38 a surplus of about Rs. 2¾ crores was obtained and in the next year the surplus amounted to a little over Rs. 2 crores. The whole of the surpluses earned in 1937-38 to 1939-40 were paid to general revenues, but the payments each year fell short of the stipulated 1 p.c. contribution and hence arrears continued to

accumulate, these, in 1941-42, amounting to over Rs. 30 crores. The railways were however relieved from the obligation to pay these arrears before 1st April, 1944, by a resolution passed in the Legislative Assembly. It should however be noted that the wartime improvement in the financial position of the railways is to be found not so much in an improvement in ordinary traffic as in the direct and indirect consequences of the War itself, *e.g.*, enhanced rates and freights imposed in 1940 and 1942, diversion of traffic to the railways owing to the dearth of coastal traffic and transport of war materials and forces. This war-time prosperity enabled the railways to waive the moratorium and since 1941 they are not only paying to the General Revenue, the share due under the 1924 resolution but also they are contributing to the General Revenue half of what would go to the railways under the terms of 1924 resolution. This extra-payment was made by 1942 when an excess payment of over Rs. 1 crore was made.

It has been revealed by the Railway Member in his statement (February 15th, 1943) that by the end of the current year the railways hope to pay off completely the debt both to the general revenues and to depreciation fund. According to the Railway Member, in peace time, the convention of 1924 had brought the railway finance into a most perilous position from which they had been rescued temporarily by the second Great War. The convention has equally failed in wartime, since it gave inadequate relief to general taxpayer and it had been necessary to introduce a moratorium from time to time in order to secure general revenues an increased share of surplus. The Government, therefore, decided to abandon so much of the Separation Convention as provided for contribution and allocation of the surplus to general revenues and to distribute the surplus expected from commercial lines in 1943-44 between general revenues and railways in the proportion of 3 to 1. The Railway Member further pointed out that in the opinion of the Railway Department from a financial point of view, it would be thoroughly unsound to allocate such a large percentage of railway surplus to general revenues, regardless of whether a surplus is actually earned or not, and that the canons of

sound railway finance dictated that apart from contribution to Depreciation Fund, at least Rs. 8 crores per annum should be set aside annually to railway reserve.

The following changes in the convention were accepted by the Legislative Assembly:

(1) For the year 1942-43 a sum of Rs. 235 lakhs shall be paid to general revenues over and above the current and arrear contribution due under the convention;

(2) From 1st April, 1943, so much of the convention as provides for contribution and allocation of surpluses to general revenues shall cease to be in force;

(3) For the year 1943-44, the surplus on commercial lines shall be utilised to repay any outstanding loans from depreciation fund and thereafter be divided 25 p.c. to railway reserves and 25 p.c. to general revenues, the loss, if any, on strategic lines being recovered from general revenues.

(4) For subsequent years and until a new convention is adopted by the Assembly, the allocation of surplus on commercial lines between railway revenue and general revenues shall be decided each year on consideration of the needs of the railways and general revenues, the loss, if any, on strategic lines being recovered from general revenues.

This revocation of the Railway Convention has been criticised in the financial press on the ground that if the Convention had not been a success, the Government was mainly responsible for that. "The new proposal of *ad hoc* settlements in each year, until the Legislature has decided on a revised convention, is likely to set up a dangerous precedent. It weakens the authority of the Convention, destroys even the little financial incentive the railways have for efficient working and opens the door to a futile bargain......There is another important reason why the *ad hoc* arrangement may lead to difficulties in future. Circumstances have arisen which challenge the adequacy of present provision for depreciation......Further, the impossibility of carrying out current maintenance, repairs and renewals on normal lines at the

present time, tends to exaggerate the extent of real profits earned."

In 1926 a Rates Advisory Committee was formed to safeguard the interests of the public and to consider complaints. In 1929 an additional post of a member was created in the Railway Board, this member being concerned with staff and labour questions which were becoming important. By this time the depression had come and there was not only financial stringency but also a decline in traffic earnings and in the number and magnitude of engineering works. So the two posts of members on the Railway Board were kept vacant. Hence it consisted of three, the Chief Commissioner, the Financial Commissioner and one member in charge of staff and labour questions. This reorganised constitution was based strictly on the main principles underlying the report of the Acworth Committee. "Briefly these principles were that the Railway Department (Railway Board) should be given such independence in carrying out its work as was compatible with its position as a Department of the Government of India and such freedom in shaping and carrying out railway policy as will enable it to treat the railways of India as a property to be developed on commercial lines. In addition to the preparation of the railway programme, the Railway Board decided all questions of general policy and economy and settled disputes between competing interests while its administrative functions included the construction of new lines by state agency, the approval of rates for passengers and goods, the settlement of train services and through traffic arrangements, the control and promotion of the staffs of state railways, and general supervision of the expenditure and working of lines in which the Government of India is principally interested." (*Handbook of Commercial Information.*)

Under the Government of India Act, 1935, the executive authority of the federation in matters of regulation, construction, maintenance and operation of railways shall be exercised by a Federal Railway Authority. The President and not less than 3/7th of the members of the Federal Railway Authority are to be appointed by the Governor-General. Apart from other functions noted above, the Authority will

be entrusted with the management of a Railway Fund, to which all moneys received for railway purposes will be credited and from which all expenses will be met. The Governor-General is also empowered to appoint from time to time a Railway Rates Committee to give advice to the Federal Railway Authority on matters of rates or traffic facilities which the Governor-General may require the latter to refer to the Committee. The Act also provides for the establishment of a Railway Tribunal whose function will be "to make orders varying or discharging a direction or order of the Federal Railway Authority, orders for the payment of compensation or damages and of costs and orders for the production of documents and the attendance of witnesses as the circumstances of the case may require." The orders of the Tribunal will have binding effect on the Federal Railway Authority, every Federated state and every other person or authority affected by the decision of the Railway Tribunal, though of course an appeal may be made to the Federal Court if any question of law is involved and the decision of the Federal Court is final.

It will thus be seen that under the Act of 1935, the Governor-General has been given too wide powers of control and guidance and in their discharge, he is to act at his discretion. Besides, this is only a change in the administrative machinery; it does not remove the age-long grievances of the Indian public or Indian business, a redress of which would have been more important. Nor is there any provision for securing co-ordination between the centre and the autonomous provinces. As has been pointed out, the provinces in the interest of their own finances may encourage road and inland water transport and neglect the railways, and this may all the more complicate the already existing problems of transport co-ordination. "Great amount of attention should under the circumstances be devoted in the next few years towards allocating to different means of transport their appropriate fields of activity and towards the elimination of competitive waste of all kinds. The railway policy should accordingly be a part of an integral whole, *viz.*, the general policy of transportation to be pursued as much by the Federal Government at the centre as by the autonomous

provincial Governments. To enable the pursuit of such a uniform policy, a regularly constituted machinery for co-ordination will be needed, as also ministers of communication specifically charged with the carrying out of a common programme." (Sanyal's article in the *Economic Problems of Modern India.*)

The present discussion on the history of railway development may be closed by saying a few words about the financial results of railways. The peculiar nature of railway enterprise being that it is profit-earning in the long run and due to the extravagance of the railway construction under the Old Guarantee system and also to the construction of unremunerative strategic lines, the railways have not shown any profit upto the beginning of the present century. The situation however improved under the New Guarantee System. This, along with the economic development of the country, particularly that of Sind and Punjab, have enabled the railways to show some profits from the beginning of the present century. But it was, on the one hand, very low for the first ten years after 1900, and, on the other, its amount was uncertain owing to its dependence on the conditions of agriculture and trade, and consequent movement of goods and passengers. It was only with the coming of the First Great War that the financial situation improved and in the course of ten years, the total gain of the railways had accumulated to Rs. 103 crores. The recommendations of the Acworth Committee and the Inchcape Retrenchment Committee being adopted, the railways were placed in all the more sound condition. Then came the Separation Convention of which we have already noted. The Convention worked till the coming of the great depression. For, it was able to stabilise the financial position of the railways. But the serious financial deterioration came with the depression when the profits disappeared and the contributions to the general finances had to be discontinued. A persistent demand was made for making an enquiry into the affairs of the railways. The point was raised by Sir Otto Niemeyer who in his report on the Indian financial enquiry suggested a thorough change in railway expenditure and the institution of effective co-ordination between the various

means of transport. Sir Otto in his report suggested the assignment of a half share of income tax by the centre to the Provinces which was however made dependent on the railways paying their contribution to the general revenue. For, it was suggested that so long as the portion of distributable sum remaining with the centre together with any contribution from the railways amounted to less than Rs. 13 crores, the income-tax would not be relinquished. These recommendations, as also the prevailing position of the railway finances since the coming of the depression, necessitated a thorough enquiry in railway finances, for which the Wedgwood Railway Enquiry Committee was appointed in 1937. The Committee made various recommendations for effecting economy and increasing efficiency. It particularly emphasized upon the need of maintaining an adequate depreciation fund for the payment of interest charges and amortisation of capital.

With the coming of the second Great War, the financial position of the railways no doubt improved and they were earning enormous profits. But the war brought home the fact that the existing railway development is by no means enough for the purposes of this country. The civilian use of railway service increased considerably but the railways were unable to cope with the demand, there being an excessive congestion. The military needs as usual were given priority and the War Transport Board was formed in 1939. It is presided over by the Chief Commissioner for the Railways and consists of the representatives of the Railway Department, the Quarter-Master-General, the Commerce Department, the Defence Co-ordination Department, the Finance Department and the Shipping Controller of India. The functions of the Board are to ensure the supply of transport for all essential traffic and to secure utmost economy by co-ordination between various forms of transport.

The Government has indicated its programme for the post-war railway development. In this programme rehabilitation has been given priority. For this purpose, orders have been placed for a large number of engines and railway wagons for replenishing the worn-out stock and the

work of restoring dismantled lines has been taken up. The Government has announced its policy of 500 miles (subsequently lowered to 400 miles) of railway construction per year. This however has been considered as too poor a project by many in view of the requirements of the country. Another important event in the post-war period has been the transfer of the E. I. Rly., Workshop at Singhbhum to the Tata Company. The locomotives produced in this workshop for the next 16 years will be taken by the Railway Board by an agreement with the Tata Company, and the Board has also agreed to provide machinery of the value of Rs. 30 lakhs to the new company at the cost price.

Railway Rates Policy

The age-long grievance of the Indian public and commercial community has been against the railway rates structure which is based, it is pointed out, on the pecuniary gains to the railways and is so manipulated as to discriminate in favour of the British and against the Indian interests. It is also pointed out that the rates structure is so framed as to encourage the movement of our raw materials to the ports and therefrom to foreign countries and to encourage imports from the ports to the inland centres, thereby placing a permanent obstacle to the growth of our industries in inland centres . The excessive congestion of industries to port town with consequential difficulties and problems is also attributed to the peculiar rates structure discouraging the movement of goods between inland centres. No less a grievance is against the policy of purchase of railway stores. The fact is, as one writer observes, "The Indian railways, whether state-managed or company-managed, has been the notorious pasture grounds for British salesmanship while the stores purchase policy of the Government has also been a close preserve for the kith and kin of the Government in Simla." It is to the consideration of this most vexed question that we are going to engage our attention in the present section.

The early history of railway construction has in part

been responsible for this state of affairs. In the first place, the older companies were working under a guarantee and hence could safely neglect traffic. This certainty as to earnings removed their incentive to economy and efficiency and to a revision of the rates structure. And secondly, possibly, a wrong notion about Indian industry and trade was responsible for this state of affairs. It might have been thought that as in Britain so also in India there was sufficient demand for railway services at any cost. But if any such notion had prevailed, it was entirely wrong. At this period, India was reorganising her economy and a railway rates structure based on rational principles would have been as much helpful as the existing haphazard structure was harmful to her economic development. Indian trade and industry, being in early stage of their development, could not make proper use of transport services.

In the early stages of railway development, the companies were following their own practices of rate-making and hence there was no uniformity as regards the general classification of goods. The state had adopted a *laissez faire* attitude in all economic matters, railways being no exception. The result was that the railway companies imposed heavy rates of freight, their idea being to earn high profits on a minimum volume of traffic, with the consequence that only high class traffic could take advantage of facilities, not the low class one. The Secretary of State for India had the right to regulate fares and rates in such a way that they may be helpful to the public interest without prejudicing the financial interest of the railway companies. But during the operation of the Old Guarantee System this right was not exercised at all. In 1868 a certain amount of control was sought to be exercised. Not that the Government would actually fix the rates and fares to be charged, but that the Government would fix a scale of maxima rates and the actual rates would be fixed by the officers of the company in consultation with the consulting Engineer of the Government, within the fixed maxima, as may suit the interests of the company. Accordingly the Provincial Governments were instructed by the Secretary of State to fix the maxima rates for different railways. The Government of

India was asked not to interfere in matters of railway rates, except for lowest class of passengers, coal and foodgrains.

The fixation of maxima rates was found to be inadequate. It had neither secured uniformity in rates structure between different companies nor was helpful to public interest and in that of industry and trade in view of wide disparities of rates and fares between different regions. Nor was any basis for the classification of goods fixed upon, thereby leaving the classification of goods into different categories to the arbitrary choice of the railway companies. In 1887 therefore the Government laid down certain principles of rating as a result of which the following schedule of the maxima and minima rates were accepted:

Class			Pies per md. maxima.	Per mile minima.
First	...	...	1/3	1/3
Second	...	...	1/2	1/2
Third	...	...	2/3	2/3
Fourth	..	...	5/6	5/6
Fifth	...	...	1	1
Special	...	...	1/3	1/10

The idea behind the fixation of the above schedule was on the one hand to secure uniformity of rates between different railway companies and on the other to have the rates and fares fixed within reasonable limits. This could be seen from the fact that for the first five classes of goods, the maxima and the minima are the same, the railway companies having no discretion in charging varied rates. Only in case of special class, to which belonged the foodgrains, coal and other low-priced articles, they were allowed certain discretion. But even this arrangement had its weakness in this that the railway companies could place goods in a different class and thereby charge a higher rate. The schedule was revised in 1891 when separate maxima and minima were fixed as follows for each class of goods:

Class		Pies per md. maxima.	Per mile minima.
First	... ...	1/3	1/6
Second	... ...	1/2	1/6
Third	... ...	2/3	1/6
Fourth	... ...	5/6	1/6
Fifth	... ...	1	1/6
Special	... ...	1/3	1/10

It was further provided that no alteration in classification could be made without the sanction of the Government. Thus the new schedule sought to meet two requirements. In the first place, it attempted to secure some measure of uniformity in classification of goods. And secondly it kept a gap between the maxima and the minima in each case thereby enabling the railways to make necessary adjustment in their rate structure in accordance with their financial requirements. But as usual, the schedule failed to secure uniformity in rates structure as between different rates and therefore created inconvenience particularly to long distance traffic. The Indian Railway Conference Association which was formed in the beginning of the present century took up the question of general classification of goods and traffic simplification. As a result of the efforts of this Association, the first general classification of goods on Indian railways came to be adopted in 1910. This, with certain modifications and adjustments, introduced during 1911-15, was sanctioned by the Railway Board in 1915. During the war and immediate post-war period nothing very important happened except the imposition of various surcharges on railway traffic, partly for revenue considerations and partly for discouraging civilian traffic.

The Acworth Committee which was appointed in 1920 gave some consideration to the question of railway rates. The Committee had favoured a general and substantial increase in rates and the Government was also of the same opinion. The railway companies themselves offered certain suggestions regarding the revision of rates. The Indian business public were however against any increase in the

freight rates. The previous schedule was scrapped and a new one adopted in 1922, this time there being ten classes, the rates also having been increased. The schedule adopted in 1922 was as follows:—

Class			Pies per md. maximum.	Per mile minimum.
First	...	...	0·38	0·100
Second	...	...	0·42	,,
Third	...	...	0·58	0·166
Fourth	...	...	0·62	,,
Fifth	...	...	0·77	,,
Sixth	...	...	0·83	,,
Seventh	...	...	0·96	,,
Eighth	...	...	1·04	,,
Ninth	...	...	1·25	,,
Tenth	...	...	1·87	,,

The question of railway rates was considered and much criticised by the Industrial Commission, the Fiscal Commission and the Royal Commission on Agriculture, each criticising them from their respective standpoints. The question of the rating of the internal traffic and the discriminatory policy against it and in favour of traffic to and from the ports, came to be particularly emphasized by the Industrial Commission, which stressed the need for equal treatment to both kinds of traffic, as far as possible, when they belonged to the same class and were to be carried over the same distance. The Fiscal Commission endorsed the above recommendation of the Industrial Commission and pointed out the need for granting rates concession to new industries for a number of years in those cases where the industries can make out a special case for this sort of treatment. The Royal Commission on Agriculture suggested the need for granting concession rates to the goods needed for agricultural improvements, *e.g.*, fertilisers, fuel, fodder, milch cattle, etc., and for that purpose suggested a greater amount of co-operation and co-ordination between the railway companies and the Agricultural Departments. Some of the

recommendations of the Royal Commission have been given effect to by the Government, though other recommendations and those made by the Fiscal Commission and Industrial Commission yet remain to be accepted. In some cases, even though the Tariff Board has emphasized upon the need of granting concessional rates, *e.g.*, in case of chemical industry, no attention has been paid to that; on the contrary, the Government has gone so far as to say that it was no business of the Tariff Board to suggest any such measure.

The classification of goods was further revised in May, 1936, and the number of classes increased from 10 to 16. The class in which a commodity is placed determines the maximum rate which may be charged for it and the minimum rate which may not be infringed without the approval of the Railway Board. The new schedule of rates was as follows:

	Pie per md.	Per mile.			
Class	Maxima	Minima	Class	Maxima	Minima.
1	0·38	0·10	4B	0·72	0·166
2	0·42	0·10	5	0·77	,,
2A	0·46	0·10	6	0·83	,,
2B	0·50	0·10	6A	0·89	,,
2C	0·54	0·10	7	0·96	,,
3	0·58	0·166	8	1·04	,,
4	0·62	0·166	9	1·25	,,
4A	0·67	0·166	10	1·87	,,

The railway rates prevailing in India may be placed under one or other of the following three categories—(1) Class rates, (2) Schedule rates, and (3) Station to station rates.

(1) Class Rates—We have seen above that for rating purposes, the goods have been placed under sixteen classes in 1936 and the maximum and the minimum rates for each class have been fixed. The rates charged for a particular commodity must fall between these two limits. The range of variation between the minimum rate for the lowest class and the maximum for the highest class lies, as shown in the above table, between ·100 and 1·87 pies per maund per mile.

(2) Schedule Rates—The schedule rate is a rate quoted on the basis lower than the maximum of the class. It may be on a unit basis, such as, ·250 pies per md. per mile; but, more generally, it varies according to distance on telescopic principle and is applicable in the majority of cases over the entire system of railway administration. A schedule rate may be quoted either per maund or per ton or per wagon.

(3) Station to station rates—A station to station rate is a special rate for the total distance covered between two points, and is quoted for special commercial considerations, either to encourage a particular form of traffic between two stations or to meet competition from other transporting agencies on a particular line. Such local concessions are granted only on the merit of each case.

Coal rates are under the direct control of the Railway Board.

Terminal charges are added to class or schedule rates as an additional charge for the terminal services rendered, *viz.*, loading and unloading. They become a part of the freights charged. The quantum of these terminal charges is not uniform but is determined by each railway administration. In case of station to station rates, no terminal charges are added.

Demurrage is levied on vehicles ordered for and waiting to be loaded by consignors or on loaded vehicles waiting to be unloaded by consignees after the free time allowed for loading and unloading a consignment is exceeded. Wharfage is charged on goods which remains in the station premises after a certain time limit. The rates of demurrage and wharfage and the free time allowed for vary on different railways.

So far as the exceptional or station to station rates are concerned, there is nothing much to say. The railways being in a monopolistic position follow the principle of 'what the traffic can bear' in their rate making and if it is found that a particular type of traffic needs special treatment, it may be given, no matter whatever be the cost incurred for the same by the railways. Because of the exist-

ence of large overhead expenses, the railways in most cases cannot depend on what is known as the 'Cost of Service' principle. Since the first great war, however, the motor traffic having increased, an element of competition has been introduced. Before that date, exceptional rates, wherever they existed, were needed for encouraging particular categories of traffic. But after 1920, they have been used as a weapon for fighting road competition. So far as the remaining rate structure is concerned, it has not been touched very much, except that the classes have been increased to 10 and then to 16. Therefore, the coming of road competition has not led to any fundamental change in the rate structure; it has simply led to increasing importance being attached to the station to station rates wherever such rates become essential for meeting road competition. This also is due to the principle of 'what the traffic can bear.' Exceptional rates are applicable to particular commodities and between two particular points; but no such discrimination can be made as between two individuals under the government regulations. It may thus be said that the importance attached to station to station rates is entirely due to the coming of road competition and it has increased the complexity of the railway rates structure which was at no time ideal and free from chaos.

The Wedgwood Committee on Railways rightly pointed out that the primary function of the rates structure is two-fold. In the first place, it should be comprehensive enough to deal appropriately with all classes of traffic that may arise; and secondly, it should be adaptable enough to admit of special quotations being given in special circumstances. The committee is of opinion that both these requirements are satisfied by the Indian railway rates structure. The public criticism against railway rates falls under two heads, *viz.*, the number and complexity of class and schedule rates and the application of the discontinuous mileage system as between individual administrations.

To take up the first item of criticism, the number and variety of class and schedule rates are called for in view of the variety of traffic in a country like India. Besides, they "enable better adjustment of rates to cost and value of

service." In the words of the Wedgwood Committee, "having regard to the almost unlimited variety of commodities to be carried, the Indian railway classification contained, until recently, too few classes rather than too many," so much so that the railways at times "have added certain intermediate classes to the classification," and "have also supplemented the classification proper by a considerable list of schedules." But an increase in the number of classes is not the solution of the difficulties that our industries have to face unless the efficiency of the railway service is increased and rates lowered. In none of these respects can we say that improvement has resulted. On the contrary, the maxima were raised in 1922 and the same process has been continued in the revision of 1936 when, as can be seen from the above tables of rates for the new classes, the maxima have been raised. This increase came at a time when the greater part of our economy was passing through depression, when there was a clear case for the revision of rates downwards rather than upwards, particularly so in case of low class traffic. This type of rates policy may have been dictated by the high working expenses of the railways, and due to their inefficiency. But that is no justification for increasing the rates rather than effect economy. True, the condition of railway finances was appalling; but that needed a thorough improvement in railway finances by increasing efficiency and economy. As the Public Accounts Committee pointed out in 1936 that, "even after allowing for a continuous, if moderate, trade improvement, for all probable debt conversions and for the effect of revised pay scales for new entrants, we cannot see how at the end of three years from now, the railways can be less than seven or eight crores short of full commercial solvency. There would moreover still be a substantial deficit if we regard it as legitimate to go on making no provision from revenue for writing down capital. . . . The Government of India should immediately obtain the services of an acknowledged expert in railway management to conduct an examination of the whole field and recommend steps which will secure definite improvements in railway finances to the extent of something like Rs. 3 crores a year immediately

and ultimately of such magnitude as is required to maintain full solvency on a strict accounting basis. And to avoid misconception we add that the terms of reference should exclude the possibility of securing this end by a mere transfer of liabilities to general revenues." The Wedgwood Committee was the result of this recommendation. The point is that the improvement in railway finances cannot be made by simply raising the rates to an extent that will surely break the camel's back, but by increasing efficiency and economy as recommended by the Wedgwood Committee. There is another point of grievance which has been admitted even by the Wedgwood Committee. This is connected with the application of the schedule. Thus cement is carried by twelve class I Indian railways on seven different schedules so that the charge for 300 miles varies from 51 pies per md., to 114 pies per md. Salt is carried on ten different schedules and the same applies to pulses and foodgrains. At present there are 27 schedules in existence out of which 8 schedules provide for an increase in the total charge at a flat rate, which however is fixed at a lower level than the basic class I rate. The remaining 19 schedules offer telescopic rates on a discontinuous mileage basis. These rates are arbitrarily fixed and they lack a reasonable basis. The result of this has been that in many cases the shortest route is not the cheapest and the longest route, though comparatively cheaper, takes much time. Whatever its historical origin, now that most of the major railways are nationalised, this grievance of the Indian business public, which is a real one, may be removed.

Another grievance of the Indian business public has been against the discontinuous mileage system. The present practice in the case of traffic passing over more than one system at schedule rates is to calculate the rate on local distance over each system instead of on the through distance over all the systems. Thus the rate for 500 miles over two systems will be higher than the rate for the same distance on one system. The greater the number of systems covered, the higher will be the rate. This practice also may have some historical reasons and originated when

a number of separate companies were functioning our railways, but cannot have any justification at present. What to speak of the present system, when most of the railways have gone under state management, even under company management, the discontinuous mileage system is bound to disappear with the increase in the interchange of traffic. The practice cannot therefore be justified on any ground whatsoever.

Another serious complaint that has been raised is against the risk rates. A distinction is made between goods carried at owner's risk and at that of the railway company. It is pointed out that the margin of differences in some cases is so great as to make the risk rate prohibitive. This rate has mostly no reasonable relation with the element of risk involved. It is not demanded that there should not be any margin of differences; but it should be a fair one, calculated upon the actual risk incurred and the amount of claims payments which might be involved. The Wedgwood Committee had given some consideration to this margin of difference over different rates the results of which enquiry are interesting. In case of general classification, it was found that the difference between railway risk rate and owner's risk rate normally varies between 7 and 16 p.c. but in higher classes it may be as much as 35 p.c. Where a schedule rate is quoted, the goods are generally carried at the owner's risk. For this type of traffic, the corresponding railway risk rate is the class rate and is surely much higher than the schedule rate at owner's risk. In a test case it was found that it may be as high as 57 p.c. The same is true of station to station rates, *viz.*, that they are quoted for owner's risk generally. If in individual cases the consignor wants a railway risk rate, the matter is usually referred to the railway and the rate quoted is the risk rate already existing, which is too high. Naturally, therefore, most of the traffic go at the owner's risk. This is a very unsatisfactory position and the Wedgwood Committee had recommended the adoption of the British practice for the removal of this grievance. In Britain, the Railways Act of 1921 places a duty on the Railway Rates Tribunal to determine what reductions shall be made from the

standard charges where damageable merchandise is carried by the railways under owner's risk conditions. The commodities to which this provision applies are indicated in the General Classification of Merchandise and the percentages have been determined by the Tribunal as varying between 2½ p.c. and 12½ p.c. according to the susceptibility to damage. This practice may conveniently be followed in this country.

Finally, the Indian business community has been particularly concerned with the preferential treatment to export and import traffic which has stood in the way of the development of Indian industries. The matter was placed before the Acworth Committee, which recognised it as being "an Indian grievance of long-standing," and it was also placed before the Wedgwood Committee. But this grievance still stands. "The local manufacturers pay relatively higher railway freights both on raw materials collected from internal producing centres and in marketing their finished products in local consuming markets. This is not all. In marketing their finished products they find that whereas they have to pay higher freight per unit, their foreign rivals conveniently push their products from the nearest port at substantially reduced rates. . . . Indian manufacturers are thus made to subsidise their foreign competitors. This feature of our railway policy adversely affects the utilisation of the raw materials produced within the country by internal factories, because it helps the import of foreign materials in our markets." (Tiwari: *Railway Rates in Relation to Trade and Industry.*) The matter is illustrated from the rates quoted from the cotton growing districts to the ports and to inland centres like Cawnpore, Ahmedabad, Nagpur. Thus while our Punjab-American Cotton is exported through Karachi, the aforesaid inland centres have to import foreign cotton through Bombay at reduced rates. The same is true of many other Indian produce. The fact is, as the Wedgwood Committee rightly observed, that the Indian railways "are ill-organised and ill-equipped on what is known as the commercial side—*i.e.*, on the side of creating and developing the traffic, of securing and maintaining friendly relations with the

traders and trading bodies and of cultivating good public relations generally."

Recently the Railway Board has proposed the following changes with a view to make the rate structure simple and reasonable: (1) The existing flat rates are to be replaced by telescopic class rates on a continuous mileage basis. This will result in a declining rate for longer distance irrespective of railway boundary. (2) Uniformity of scales of rates is to be entered by the abolition of numerous schedule rates. (3) The margin between railway risk rates and owner's risk rates would be made reasonable so as to make them adjusted with the actuarial value of risk. Railway risk rates will be quoted for station-to-station rates also. (4) Traffic will be carried by the shortest route so far as possible. It is also proposed that in future there will be only two classes of rates, *viz.*, telescopic rates and station-to-station rates. A good rates structure must take into consideration not only the financial requirements of the railways but also the needs of the country's economy.

Rail-Road Co-ordination:

We may begin the discussion by asking a question, what is the problem of co-ordination? The problem of co-ordination has come to the forefront owing to the coming of motor transport from the beginning of the twenties and the examination by the Mitchell-Kirkness Committee shows that in British India, nearly half of the existing railway mileage has roads—metalled ones—running parallel to them or within a very short range and this means a competition between the two means of transport. The relation between road transport and railways should be complementary; but that is possible only where road transport system is a short distance one and works as a feeder to the railways. If the road transport becomes a long distance one, the competition becomes real and wasteful. When the Mitchell-Kirkness Committee reported, the following long-distance road transport system were in operation. Since then their number has increased, creating a greater complexity of the problem:

Bombay Presidency:

Bombay-Poona Bus	Service	operating	over a	distance of	113	miles.
Nasik-Kalyan	,,	,,	,,	,,	89	,,
Kolhapur-Poona	,,	,,	,,	,,	135	,,
Bagalkot-Belgaum	,,	,,	,,	,,	85	,,
Dharwar-Kolhapur	,,	,,	,,	,,	125	,,

Madras Presidency:

Madras-Vellore	,,	,,	,,	,,	82	,,

Central Provinces:

Nagpur-Amraoti	,,	,,	,,	,,	96	,,
Nagpur-Chhindwara	,,	,,	,,	,,	92	,,

United Provinces:

Fyzabad-Barabanki	,,	,,	,,	,,	68	,,
Benares-Allahabad	,,	,,	,,	,,	82	,,

The problem of transport co-ordination is the problem of the division of this traffic between different agencies in such a way that the community can derive the greatest possible benefit from the two without there being any social waste on account of unhealthy competition. According to G. Shorley Peterson, the implications behind the word 'co-ordination' are three-fold: first, economic allocation of functions as between different means of transport: second, formation or establishment of well-organised joint services; and third, elimination of competitive waste. This objective can be secured by a number of ways, *viz.*, by unrestricted competition, or by voluntary agreement, or by governmental regulation, or by a complete unification of the rival means of transport under one management or by a combination of two or more of above methods. Governmental regulation may be either a strict one; or as Gadgil argues, "a regulation of the rates structure which evens out the conditions of competition between the various agencies and then leaves the traffic to flow into such channels as it likes." The need for some effective policy of co-ordination is very great in view of the fact that under the present un-

controlled competition, "while the community is paying to a greater or less extent for the luxury of duplicate services along half the railway mileage, it is being deprived of developments elsewhere."

Let us take up first unrestricted competition as a remedy. It was estimated by the railway authorities and accepted by the Mitchell-Kirkness Committee that class I Indian railways were losing annually about Rs. 190 lakhs due to road competition, the U. P., being the most seriously affected area and the N. W. Rly. being the most affected lines. Free competition has surely two aspects—it is beneficial to the public in so far as it leads to cheaper but better facilities of transport but it is wasteful on the whole. Neither can such services be maintained on the basis of free competition. After a certain stage, they must combine. If free competition solves the problem without involving waste, it may be regarded as the desired goal. As one writer puts it, "we have no objection to the breaking of eggs but we must be satisfied that the omelettes contain all the eggs that are broken." Free competition is therefore both wasteful and difficult to maintain. Voluntary agreement is the next choice. In fact, if free competition is allowed to prevail, it must result in mutual agreement sooner or later. But co-ordination, based entirely on voluntary agreement, without any sort of public regulation and control is likely to become negligent of the public interest. Voluntary agreement is therefore good so far as it goes, but the need for public regulation is there. Under voluntary agreement, the management is not unified; it is suggested that for a more harmonious and co-ordinated development, there should be, instead of a number of managements, one unified management for the entire system of transport. This no doubt improves the matter so far as the various transport agencies are concerned; but it makes the monopoly more rigid and the likelihood of the exploitation of public interest increases instead of diminishing. The case for public control over the different means of transport, whether under free competition, or under voluntary agreement but having different managements or under a unified management, cannot be pushed to the background.

The public control may be of a rigid type or of a mild type as noted above or the intervention by the public authority may be only advisory in character. A rigid type of public control over the transport system would not be liked either by the transport agencies or by the business public, particularly in a vast country like India. Even the Mitchell-Kirkness Report did not support the idea of the establishment of a permanent wholetime body like the Traffic Commissioners as in Britain. Transport services being essential to business, they must be as flexible and as free from administrative rigidities as possible. A mere advisory body, again, having no binding effect to its advice, may in certain cases find it difficult to function; its advice may have no effect. Hence the middle course of mild type of regulation in certain essential fields leaving the rest either to the traffic or to the transport systems or to both would be more favourable. This can be done by establishing certain regulations as to rates so as to secure uniformity. The prevailing practice is not very helpful: for it has been found that the road companies under-cut the railways in matters of rates charged, and this fact was admitted by the Mitchell-Kirkness Committee. Therefore if uniform rates are established at least for those routes where there are parallel roads and railways, leaving the remaining factors like convenience, comforts, facilities, etc., to the concerns themselves, a lot of waste taking place at present may be prevented.

At this stage a few words may be said about the zoning system about which the Mitchell-Kirkness Committee recommended. The committee suggested the zoning of motor transport on parallel competitive routes within a range of about 50 miles. This was of course one of the suggestions put forward by the Committee, the others being active counter competition both in respect of improved facilities and reduction in rates and fares, operation of motor transport by railways and the establishment of a Central Advisory Board of Communication at the Centre, Provincial Boards of Communication in the provinces and Divisional Committees in the Commissioners' Divisions. So far as the proposal for the zoning of

short distance traffic is concerned, it is not taken with favour by the railways on the ground that about 40 p.c. of their earnings from the third class passengers come from the zone of a 50-mile area. That will mean a reduced earning for the railways, a loss which will have to be made good by increased rates on long-distance traffic, which will surely be the last thing to be liked by trade and industry and also by the passengers traffic moving over long distances. It was not liked even by the road transport agencies partly because it would affect their earnings and partly because it was difficult to lay down any specific distance for zoning in view of different conditions prevailing in different parts. The Committee itself admitted that "while zoning may prevent competition increasing in range, its introduction may give rise to controversy and would not substantially affect the present position which must remain a serious problem."

The suggestion put forward for the regulation of rates structure with a view to secure co-ordination may now be considered in brief. This sort of co-ordination is essential in view of the fact that free competition would lead to a lowering of the rates structure and affect the financial position of both, particularly the railways. Nor would it be either possible or desirable for the railways to increase the rates for articles which are not competitive. For, that instead of improving the railway finances will simply lead to further deterioration and will also not be liked by businessmen, *e.g.*, the raising of rates for the carrying of basic materials like coal would have adverse consequences on many Indian industries. That is why the Government of India and the railway authorities are to-day not in favour of leaving them to open competition but trying them to combine under some form of monopoly.

There are people in this country who have supported road competition with railways on the ground that it would force the railway companies to systematise their rates structure which at present is the most chaotic and that it would counteract against the step-motherly attitude taken by the Indian railways towards Indian trade and industries by their policy to encourage traffic to and from the port towns, and no reasonable person can find fault with them. For,

as Gadgil points out, in case a monopoly is organised, "the only continuous adjustment to change that can come about in the circumstances would be owing to any action taken by the monopolistic organisations or by the Government on their own account. In the light of past experience, it is too much to expect a great deal in these circumstances."

The reasonable policy would therefore be to regulate the rates structure both for roads and railways so that there may not be any scope for rate-cutting. At the same time other matters should be left to open competition. But the Government must be careful to see that this regulation makes railway rates structure more rational and systematic and more competent to serve the development of industry and trade in inland centres, which it has neglected so far. The road rates structure which is yet to come should be systematic and take note of local conditions. In fixing the road rates structure it should be borne in mind that the road rates structure is essentially different from railway rates structure. The difference between the two has been aptly summarised by Gadgil in the following words, "The smaller unit of operation and the smaller sphere and volume of operation will make it difficult for a full working out of the principle of what the traffic will bear in road transport rates. The fact that the permanent way is provided for by another agency and that its cost to the operator becomes closely related to use, also make it unnecessary for the road operator to resort to the principle of what the traffic will bear. The road rates structure is also less affected by permanent overhead costs at terminal points. Therefore it tends to be differentiated from the railway rates structure in at least two important respects: (1) The economies of longer haul will not be specially marked in it and the rates structure need not be as telescopic as on the railways, and (2) the differences in charges between types of commodities according to their values and bulk need not be wide and marked as in railway rates."

In the early stages of road transport the policy adopted by the railways for counteracting road competition was that of granting station to station or special rates. In the thirties this was supplemented by an effort to prevent road

hauliers from competing effectively with the railways. Various measures were adopted for the purpose, such as, railway omnibus services as those run by the E. I. Rly., shuttle trains and sentinel coaches, cheap return tickets, third class zone season tickets, concession rates to parties, running of special trains, time-table adjustments, greater propaganda, etc. The suggestions put forward by the Mitchell-Kirkness Committee have already been noted. Following upon the report ot this Committee, a Road-Rail Conference was convened in 1933. It included the representatives from the Provincial Governments as also those of all interested bodies. The road policy of the Government in recent years has been shaped on the basis of the discussions at this conference. The conclusions arrived at by this conference were as follows:—

(1) Removal of statutory embargo so that certain classes of railways may be given the power to run road-motor services.

(2) Development of rural motor service should be encouraged, if necessary, even by the grant of monopoly for limited period of time.

(3) Creation of machinery at the Centre and in the Provinces for ensuring intelligent co-operation and adequate co-ordination between different forms of transport. A number of other suggestions were also put forward, *viz.*, restriction of the number of motor vehicles plying for hire by restricting licences, introduction of uniformity in road-motor taxation and motor vehicle rules, etc. The Railway Act had therefore to be amended in September, 1933, with a view to empowering the railways to run motor services. In 1935, a Transport Advisory Council was formed. It consists of ministers in charge of roads in various provinces or their representatives, with one or two council advisers. The findings of this council are purely advisory in nature and they may or may not be accepted by Provinces for the furtherance of co-ordinated development of road, rail and other forms of transport. The establishment of a separate department in 1937,—the Department of Communications—under a member of the Executive Council, as recommended by the Road Development Committee, may

be regarded as a step further and this Department can very easily take up a consideration of the policy of transport co-ordination.

The Wedgwood Committee on Railways also had considered the question of transport co-ordination in so far as it came within their terms of reference and made certain recommendations which were mostly in the nature of increasing the efficiency of the railway service, and more particularly in the development of the commercial side of the railway administration. The Committee was not in favour of reducing fares to meet road competition, except in special cases. The Committee had much to say regarding the inefficient regulation of road transport by provincial governments which was encouraging an inefficient type of road transport which itself would not provide sufficient and satisfactory service but simply cripple the railways by unfair competition. Hence the Committee recommended that both railways and roads should, for the sake of efficiency and better service, be operated as public services, so that both the services may properly develop without crippling the other. The actual regulation of road transport should be left to the Provincial Government. But the Central Government, for the sake of uniformity, must enact the broad principles within which the Provincial Governments were to act. The Committee was not in favour of imposing any restriction on road service that may hamper its development; but it suggested proper regulation of time tables, rates of fare, granting of licence for passenger services, regional licensing for goods vehicles, etc. The Committee also declared itself to be in favour of direct participation of railways in running road services, or indirect participation by entering into working agreements with road transport undertakings or even by arranging road transport services through contractors. The Committee also emphasized upon the importance of voluntary co-ordination of the two services where possible.

Since the publication of the report of the Wedgwood Committee, the railways have tried to effect improvements on some of the matters suggested by the Committee. These were pointed out in details by the Railway Member in his

Budget speeches for 1938-39 and 1939-40. Some of these measures were as follows:—The railways experimented with rail cars on a modest basis on the G. I. P. and M. & S. M. Rlys., and had decided to give a fuller trial to the same on the N. W. Rly., and to a lesser extent on the B. B. & C. I. Rly. A number of bogie carriages for lower class passengers were constructed embodying most of the improvements though the work was taken up on a small scale. Efforts were made to improve the relation of the railway administration with labourers. For developing the commercial side, ten posts were created in order to expand the activities in regard to publicity, commercial research and direct commercial working. Efforts were also made to establish personal contact with business community. A number of other improvements were effected by the railway administration.

In 1939 the Motor Vehicles Act was passed. It superseded the earlier enactment on the subject which was found inadequate to deal with the expanding motor services. The Act places the control of transport vehicles in the hands of the regional transport authorities constituted for different areas in the province, and all the motor vehicles are to operate under a permit from this authority. The permit imposes a number of obligations regarding speed limit, satisfactory maintenance, number of passengers, treatment of employers, etc. Before a permit is granted, the regional transport authority is to satisfy itself on a number of things which are essential from the standpoint of transport co-ordination, *e.g.*, avoidance of uneconomic competition, requirement or otherwise of that service, condition and suitability of roads, etc. The route-permit holder is under the same sort of obligation as a public utility service as regards the maintenance of regularity in service. The authority is also given the power to fix minimum and maximum rates for traffic on the roads. The ultimate control is vested in the Provincial Government.

For the post-war period the Government has announced its policy in relation to road-rail competition. A tri-partite scheme of partnership has been evolved. It will contain the Central Government representing the railways, the pro-

vincial Governments and the road operation, the object of the scheme being to establish a co-ordination between road and rail transport. It is to be seen how far this policy leads to a co-ordinated development of both the services upto the requirements of the public in general and of the business community in particular.

CHAPTER XIV

WATER & AIR TRANSPORT

Inland Waterways:

India is a land gifted with rivers but many of them are unsuited for purposes of navigation. This is mostly true of the South. In the Peninsula, during the monsoons, the rivers flow in torrents while for the rest of the year they are practically dry. Navigation is impossible in them. Some of them, again, have rocky beds which make navigation dangerous. In the South, only the Godavari, the Krishna and the Mahanadi are navigable in certain places but the traffic on these South-Indian rivers is not much. The north-Indian rivers are mostly navigable and remain so more or less throughout the year. They have a considerable traffic, both by country boats and steamships. With the coming of the railways, the passengers traffic has now been reduced to a negligible figure. But in the transport of goods they are a serious rival to the railways particularly for the goods for which railway freight is high. It is found that inland waterways provide a much cheaper facility both to the passengers and goods traffic. They were not always resorted to not because of freight considerations but because of slowness. If commodities are liable to damage on account of humid atmosphere and insufficient protection from sun and rain, this transport system is not resorted to.

This form of transport has been neglected altogether by the British rulers. Possibly it was due to their experience with canals in England; or possibly it was their interest to support the railway companies with British ownership, management and finances. But the needs of this country were entirely different and a development of canals both for irrigation and transport would have suited our purpose. R. C. Dutt had voiced the Indian requirement. "Railways helped the distribution of food supply in times of famine,

but did not add to that supply. It was irrigation works which added to production and secured crops in years of drought. Hindu and Mahomedan rulers had therefore paid the greatest attention to irrigation works...... But the British nation, more familiar with railways than with canals in their own country, did not adequately realise the supreme importance of irrigation works in India; and did not extend them with the eagerness with which railway lines were multiplied." Sir Arthur Cotton was very emphatic on the need for the extension of inland navigation and prepared an ambitious scheme which was placed before a Parliamentary Committee in 1872. The principal lines of navigation which he recommended were (1) from Calcutta to Karachi, up the Ganges and down the Indus; (2) from Coconada to Surat, up the Godavari and down the Tapti; a line up the Tumbhadra to Karwar on the Arabian Sea, and (4) a line up the Ponang, by Palughat and Coimbatore. But the scheme was never taken up for reasons stated above and also because of the appearance of profits from investment in railways from the beginning of the present century. The Industrial Commission being concerned with other matters could not give any definite opinion on the subject; but it accepted "the desirability of the improvement of many of the existing waterways," and went so far as to suggest that "in the absence of a representative specially charged with their interests, the vested interests of railways have prevented waterways in India from receiving the attention that has been given to them in other large countries with such satisfactory results." The Acworth Committee also admitted that waterways have suffered because of the unfair competition on the part of the railways. The question is important and needs consideration. In recent years, in some parts of Northern India, a lot of havoc is done by rivers being overflooded. This may be prevented if these water resources are properly utilised and surplus water turned into canals. For the sake of proper development of transport facilities, this aspect of the question must also be taken up. The suggestion of the National Planning Committee, *viz.*, that "the various Provincial Governments should create Provincial, and where necessary, inter-Pro-

vincial River Commissions for the regulation, development and control of the various rivers and waterways for the purpose of providing (1) water for agriculture and industries; (2) hydro-electric power; (3) cheap transport; (4) prevention of erosion, silting and floods; and (5) safeguarding the health of the people," should receive urgent consideration. The Committee also suggests that the River Commission should also take up the question of the shifting of river beds.*

Coastal Transport

It is a well-known fact that India has a vast coast-line of about 4500 miles. Although in the nature of the coast-line, India is not so much favoured as England, yet the existing coast-line is by no means negligible. Its importance is increased all the more in view of the fact that India has a considerable amount of coastal trade in agricultural produce, timber, coal, salt, oils and general cargo. According to Sett Walchand Hirachand, about 70 lakh tons of goods and 20 lakh passengers are carried both in the East and the West coasts of India; but "out of the large coastal trade of India, it is extremely disappointing to find that on an average of the last six years ending June 1939, Indian shipping companies carried only the meagre 21 to 22 p.c. of that trade." The passenger and goods traffic is thus by no means negligible, even when compared to that of other countries. But mostly it is in the hands of the non-Indian concerns.

The ships plying in the coastal waters are of two types —the old countryships and steamships. Their respective tonnages were as follows:

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*Since these lines were written a lot of change has taken place in our country, particularly in the political field. Accordingly a number of projects have been taken up for consideration, of which a few are already ripe for consideration while others are as yet under consideration. It may however be suggested that these projects while supplying irrigation facilities and generating cheap power should also facilitate inland communication which is as yet far from satisfactory.

Tonnage and Number of Countryships.
(Estimated by Sorley Committee)

Number of Tonnage.	Tonnage.	Registered ships.
10—25 tons ...	22399	1281
26—50 tons ...	54104	1443
51—100 tons ...	46270	661
Over 100 tons ...	23948	183
	146721	3568
Estimated Cutch & Bhavnagar ...	20000	400
Bombay ...	40000	800
Total ...	206721	4768

On the authority of K. B. Vaidya, in the west coast of India we find the following types of vessels plying:—

(1) Arabian Type Baglas;
(2) Cutch-Kathiawar & Sind type Kothias;
(3) Gujerat Type Machwas and Batelas;
(4) Thana-Ratnagiri Type Fatemaris and Mhangiris;
(5) Malabar (Cochin-Culicut) Type Manjis;
(6) Tuticorin Type Luggers; and
(7) Jaffna-Madras-Coconada Type Brig.

Tonnage and Number of steamships plying in Indian coastal waters.

(Estimated by Seth Walchand)

Name of the Company.	Tons. gross.	Number of steamers.
The Scindia Steam Navigation Co. Ltd.	98812	23
The Bombay Steam Navigation Co., Ltd.	13299	15
The Bengal-Burma Steam Navigation Co., Ltd.	5209	3
The Indian Co-operation Steam Navigation Co., Ltd.	1605	6
The Eastern Steam Navigation Co., Ltd., ...	590	1

The Malabar Steam Navigation Co., Ltd.	2144	2
The Merchant Steam Navigation Co., Ltd.	1633	3
Cowasjee Dinshaw Bros ...	4474	4
The Hindusthan Steam Navigation Co., Ltd.	3627	5
The Hindustan Steam Navigation Co., Ltd.	310	1
Total ...	131703	63

The volume of traffic going by sea-going country vessels is diminishing to a small proportion in view of risks and delays involved and hence an increasingly large number of ports in the west coast are having steamship companies, as the above table clearly indicates. Yet it will be interesting to speak a few words about this sailing vessel traffic. Ship-building is an ancient art with the people of this country, particularly with those living on the coasts, and these ships owned, maintained and manned by the Indians have gone practically to all parts of the then known world. And what is more, before the coming of steamships India had been a supplier of ships to foreign countries, including England, these being constructed in Indian docks. Since the coming of steamships, sailing vessels have become out of date but have not altogether disappeared from the coastal waters even of the advanced maritime nations. Since the sailing vessels are not in any way competitive with the steamships, government attitude to this type of Indian enterprise has not been adverse as it has been in case of that in steamships, and whenever necessary, as during the war, the government encourages their construction and purchases them, as has been done during the years of the second Great War when a large number of firms entered into contract with the government in this respect.

The procedure of chartering, documents used and other things in sailing vessel traffic are not so cumbrous and complicated as in the case of a steamship. The sailing vessels maintain their primitive simplicity and hence give attraction to parties even though this type of transport is risky

and slow. Chartering in case of a steamship is done through a broker, either an independent one or working for some owner of vessels. But in case of sailing ships, the process is simple and direct in so far as it can be done by the intending parties directly from the owner, the captain or the tindal of a ship. Charterers in India are of two or three types. First, we may mention those merchants who charter the ship entirely on their own account and have sufficient cargo to be despatched for the ship. These merchants have their own organisations both at the port of despatch and at destination. Secondly, there are the commission agents representing the importer at the exporting centres. They work in those cases where the importer has no organisation of his own at the centre of purchase and export. Apart from these two types of charterers, there is a third variety, known as shipping agents. The above two categories are capable of sending full ship-load of cargo. But there may be merchants working who cannot do so. They take resort to shipping agents who have chartered the vessel. The shipping agent carries the cargo of a number of different merchants and for that charges a freight which, including his remuneration, is higher than the charter rate. Although the freight rate charged by the shipping agent is higher than the direct charter rate, the number of such shipping agents operating indicate that they are in great demand. The traffic pooled by these shipping agents leads to the fullest utilisation of the available sailing ships. There are also brokers, as they are in case of steamships but they are not so important as in the latter case.

The procedure of chartering a vessel, as already said, is very simple. It may be done directly or through shipping agent or broker. In any case, a contract—'Kabala' as it is called—is signed by the parties and contains a number of clauses indicating the tonnage of the ship, the freight, the registered number of the ship, name of the tindal, nature of the cargo, port of destination, etc., But it makes no mention as to the dates of loading and unloading or the period within which they are to be completed, there being no regularity of practice in these respects. The necessary documents are also reduced to the minimum, *viz.*, those

that are required by the Customs and Port authorities, except of course in case of vessels going to the ports on the coasts of Iran and Arabia or by the African ports. Even in the latter case many of the unnecessary documents insisted upon in case of a steamship are eliminated, *e.g.*, Mate's Receipt, measurement and weighment certificates, etc. The fact is, as Mr. Vaidya rightly points out, "It is mainly this aspect of the problem—that characteristic of most of the Indian tindals and crew to watch their owner's interests to the utmost of their abilities—that enables an Indian ship-owner to simplify his procedure to the barest minimum. It is this aspect of 'faith' without formalities that eliminates the necessity of elaborate documents which are considered necessary to the steamship trade......... No shipping orders, no Mate's Receipts, no Cargo Manifests, no elaborate sailing letters, no Captain's copy of the Manifest, no bills of lading and none of those other formalities which are considered essential to, and form part and parcel of, the steamship organisation are preferred." But these old simplicities are gradually disappearing partly due to the competition of the steamships who offer elaborate documents and partly due to the insistence of the government and of even private merchants for those documents. Like other fields of Indian trade, even this field also is being affected by changed conditions.

So far as the rates of freight charged for transport by the sailing vessels are concerned, there is no uniform rate structure and it is as chaotic as the road rates structure in India. To a considerable extent, the freight in each case is fixed by the cost of services rendered; but the bargaining strength of the respective parties, the volume of cargo passing in each direction and the part of the season are equally important factors in rate fixation. Then again the rates differ according as chartering is done directly or through the shipping agents. The seasonal variation in rate making is particularly wide. Efforts at standardisation have been made in the past; but in view of above conditions and also of the fact that there are more than 3000 owners on the west coast alone who are scattered all over the coast, any uniform action in any matter has not so far been found pos-

sible. The conditions prevailing in different parts of the coast again are entirely different and they would make uniformity in rate structure all the more impossible. Under the exigencies of war, a scheme had been prepared for the purpose. It was arranged under the scheme that the whole of the west coast was to be divided into five zones, each zone being placed under a shipping agent. The rates for each zone were to be fixed by inviting quotations and that approved by the government would be the rate for the season. The scheme applied only to the government cargoes and not to the public ones. The scheme, if adopted, would have brought some uniformity in a field which is as yet chaotic. Although scheme was ot a limited sort, yet the rates for public cargoes would surely have followed that for government cargoes. The scheme however was never introduced.

In case of steamships, as is well-known, the chartering is done through brokers. The steamship lines engaged in coastal trade in India normally operate under a conference whereby rates are fixed, the object being to eliminate excessive competition. For encouraging the merchants to use the lines forming the conference, a rebate of 10 p.c. is granted to companies who have confined their shipments to them.

The discussion of this section will not be complete unless the fact of hardship undergone by the Indian steamship companies in their competition with the British rivals has been mentioned. The British companies have neither been fair to the Indian rivals in the line nor to Indian traders or passengers traffic. Whenever an Indian company had started working, the British concerns have started rate cutting and all sorts of other devices for pushing that out and as soon as the Indian concern had disappeared, they had made good the loss by charging more freight. The granting of rebate for continued loyalty is another weapon in their hands. The government has done nothing to protect the Indian concerns. To the small extent that we find the Indian steam navigation companies working in the Indian coastal waters is due not to government assistance but due to these concerns combining trade with navigation.

The same is the story behind the success of the Scindia Steam Navigation Company and other Indian concerns. When cargo was not forthcoming from the members of the business community they had carried their own trade in their own ships and in this way they have been able to make some place for themselves.

Ports, Docks and Warehouses

All through her history, India had been a country having an extensive foreign trade which was carried to a small extent across the frontier but mostly by sea. Throughout the coast line, therefore, India had a large number of ports. With the economic decline that followed since the beginning of the 19th century, a large number of these ports have either declined in importance or have disappeared altogether. At present, the major part of our exports and imports pass through Calcutta, Bombay, Madras and Karachi.

The affairs of the port of Calcutta are administered by a Port Trust founded in 1870 which at present is composed of a chairman, a deputy chairman and 17 commissioners, of whom 12 are elected and 5 nominated by the Local Government. Of the 12 elected commissioners, 6 are returned by the Bengal Chamber of Commerce, one by the Calcutta Trades Association, one by the Corporation of Calcutta, and 4 by such body or bodies as the Local Government may select from time to time as best representing the interests of the Indian mercantile community. The port originally extended from Cossipore to Garden Reach, a distance of about 9 miles. In 1886 it was increased upto Budge Budge, 16 miles below Calcutta, in order to include the petroleum depot at that place. In 1921 it was further extended northwards by 9 miles, upto Konnagar. The Port includes the Calcutta Jetties, situated south of the Howrah Bridge, all lands comprised in the area occupied by the King George's Dock and Kidderpore Docks, the petroleum depot at Budge Budge and a number of moorings in the stream where the greater portion of the coasting traffic is dealt with by steamers discharging, into, and loading direct from boats.

Vessels can discharge at the jetties, in moorings or in the Docks. All facilities to be found in a first class port are provided. The Calcutta jetties are used exclusively for the discharge of miscellaneous import cargoes. Some miscellaneous import cargoes, bag imports and all exports are dealt with in the Kidderpore Docks, the King George's Dock and at the Garden Reach Jetties. There is always a good supply of lighters. Ships using the commissioner's wharves also discharge into and load from lighters which are privately owned. Many ships again do not use the wharves but do all their discharging and loading by means of lighters.

The affairs of the port of Bombay are under the supervision and control of the Bombay Port Trust, a corporate body created by an Act of the Legislature. It consists of a wholetime chairman appointed by the government and 21 members of whom 8 are nominated by the government including one representative of labour, 5 by the Bombay Chamber of Commerce, 5 by the Indian Merchants' Chamber, 2 by the Municipal Corporation of the City of Bombay, and one by the Bombay Millowners' Association. The administration of the harbour, lighting pilotage, docks, bunders, railways and landed estate is carried by it. It originated in 1862 in a private concern called the Elphinstone Land and Press Co. This company entered into a contract with the government to provide a hundred acres of land for the terminus of the G. I. P. Rly. and in return it received the right to reclaim from the sea for its own advantage 250 acres fronting its own properties. This deal was followed by the development of the Port. The government then considered it fit not to keep the management of the port affairs in the hands of a private concern. In 1869, therefore, the rights of the company were taken over by the government and in 1873 they were vested in the Port Trust authorities. In 1879 the Trust was reconstituted by an Act of the Legislature; since then it has remained practically unaltered.

The affairs of the Port of Madras are administered under the Madras Port Trust Act, 1905 (as amended upto 1929) by the Madras Port Trust Board consisting of 14 members, of which 4 are nominated by the Government, 4

elected by the Madras Chamber of Commerce, 2 by the South Indian Chamber of Commerce, one by the Madras Piecegoods Merchants' Association, one by the South Indian Silk and Hides Merchants' Association and 2 by the Madras Trades Association and one chairman. The Port Trust Board for the port of Karachi consists of 15 members of whom the chairman is appointed by the Government. Five members are nominated by the Government, one of them being a representative of Labour, 4 are elected by the Karachi Chamber of Commerce, 2 by the Karachi Indian Merchants' Association, 2 by the Buyers' and Shippers' Chamber and one by the Karachi Municipal Corporation. Since 1907 Karachi has been recognised as a first class port and is the headquarters of a Collector of the Imperial Customs Service, with three Assistant Collectors.

From 1st April, 1928, the Port of Chittagong has been declared a major port and its administration has been transferred from the Government of Bengal to the Government of India. The Port Trust at present consists of 12 Commissioners—the Chairman and one Commissioner being appointed by the Governor-General-in-Council, the Collector of Chittagong District and the Collector of Customs, Chittagong, ex-officio, one Commissioner being appointed by the administration of the Assam-Bengal Railway; 3 elected by the Chittagong Chamber of Commerce, 3 elected by the Indian Merchants' Association, Chittagong, or by such bodies or firms as the Governor-General-in-Council may from time to time select as best representing the interests of the Indian Mercantile Community at Chittagong. The Customs Houses are in charge of an officer of the rank of Assistant Collector in the Imperial Customs Service.

[Recently it has been decided to arrange for all up-to-date facilities in the Port of Chittagong, for Chittagong is the only port in Eastern Pakistan.]

The administration of other smaller ports is vested in a Port Officer or Port Conservator and a Customs Collector. This applies to ports like Mangalore, Tellicherry and Masulipatam. At Calicut, apart from the Port Officer and Customs Collector, there is also an Inspector of Customs, subordinate to the Collector of Customs and salt revenue,

Madras. A Port Conservancy Board was opened in 1935. The Port of Tuticorin, the headquarter of a Sub-Collector, a Port Officer and of an Inspector of Customs, is in exclusive charge of the last-mentioned officer, constituting a circle by itself. The minor ports of Kayalapatniam and Kulasekharpatnam which were formerly under his control have been transferred to the jurisdiction of the Inspector of Salt and Customs, Tuticorin circle, Tuticorin. A Bill for the formation of Port Trust was passed by the Madras Legislative Council in 1924 and a Trust was formed in the same year. In Negapatam also, there is an Inspector of Customs, apart from a Port Officer and a Customs Collector. The jurisdiction of the Inspector of Customs extends to the whole of Karikal Frontier (Land Customs) and the Port of Negapatam (Sea Customs) only. Vizagapatam is the headquarters of the Traffic Manager who is the Port Officer and of the Customs Collector. Sometime back a ship-building yard has been established by the Scindia Steam Navigation Company, and it has produced the first vessel in India sometime ago.

The position of the Port of Cochin had led to certain complications. Though the actual port lay in the British territory, it was not possible to carry out any large development of the Port without covering parts of the Cochin and Travancore States. By the Inter-Portal Convention of 1865, the Cochin Durbar agreed to abolish the tobacco monopoly and inland transit duties at its ports and to equalise the rates of Customs duties at its port with those in British India, and also to sell salt within its limits at prices ruling in the adjoining districts of Malabar. In return, the British Government guaranteed a minimum Customs and tobacco revenue of £7360. This subsidy has been increased in subsequent years in view of the fact that there are no ports in the state open to foreign trade and that there has been a considerable increase in Customs revenue collected at this port in recent years. The existing arrangement under the above convention has been revised and a new agreement has been entered into by the British Government with the Cochin and Travancore Durbars under which, subject to certain conditions, the three governments jointly finance

the development of the harbour and divide equally amongst themselves the Customs Collection of the port from the time it became a regular practice for the ocean-going steamers to come inside and discharge at moorings. The port is the headquarter of a Port Officer and an Inspector of Customs. A few years back the Cochin Government has appointed the following Officers:

(1) The Collector of Customs and Salt Revenue, Madras as the Chief Customs Officer for the Port of Cochin to hear and dispose of all appeals;

(2) The Deputy Commissioner of Salt and Customs Revenue, Madras, and the Assistant Commissioner of Salt and Customs Revenue, Central Division, Madras, to be Customs Collector; and

(3) The Inspector of Customs, British Cochin, to be Customs Collector and all officers subordinate to him to be officers of Customs under their respective jurisdictions and the Central Board of Revenue as the Chief Customs Authority.

Apart from these there are two or three ports which need mention. The Port of Mormugao is situated in the Portuguese India. It is worked by the India-Portuguese Railway, a line built by an English Company under the guarantee of the Portuguese Government and worked since 1903 by the M. & S. M. Rly. But quay and tonnage dues are collected by the Government of Portuguese India and handed over to the Railway. The Portuguese Government also appoint the Port Officer, the Port Health Officer and Customs establishment. In French India there are two ports worth any mention—Pondicherry and Karikal. Pondicherry is a "free" port in India. The significance of a free port lies in the fact that it performs the same functions as a bonded warehouse in matters of customs duty. Within the area of a free port, all goods are free of Customs duties, as if they are still on sea and no duty is payable on them until they are taken out of that area. The purpose of having free port is to encourage entrepot trade. Within the port area not only the goods are free, but there is also an additional advantage in this that within this area, inspection or selling

may be done without payment of any duty or any security for the payment that of. Since 1934, however, nominal import duties are levied on sugar, silver, gold thread, spirits, matches, saccharine and perfumes. There are special arrangements in force to regularise the free transport of articles that are dutiable in British India between one French village and another through intervening British villages. There is no free port in British India. Karikal is another free port in India situated in French territory. The Standard Oil Company has a large installation here, including several big storage tanks. In this way, the bonding of a large quantity of oil is avoided. When despatches are made in the interiors of India, duty is paid on the French border.

In 1946, a Technical Committee under the Chairmanship of Sir Godfrey Armstrong of the War Transport Department was appointed to investigate into the future needs both of major and minor ports. It is well-known that with such an extensive coast-line India has only four major ports and in some of them the port facilities available are hardly adequate. This tells adversely on India's position in so far as the existence of good ports for oceanic shipping is concerned. The Committee has recommended a progressive policy on broad lines. In the first place, there is no first class port on the East Coast. Madras is not, really speaking, a first class port; but the Committee urges that rights be acquired to extend the water front as trade demands. The Committee favours the development of Vizagapatam as a first class port on the East Coast. So far as the port of Calcutta is concerned, its navigable approaches need improvement. The Committee urges expert investigation in this respect. The scheme for a Kidderpore-Diamond Harbour ship canal may be investigated into, particularly for vessels of deeper draft. The Committee also considered the commercial possibilities of the Rameswaram project, a canal between Ceylon and India, for doing away with the existing inconvenience, *viz.*, the north-bound steamers passing up Ceylon's East Coast and is not much optimistic. Regarding the West Coast the Committee urges the necessity of developing Bhatkal, at present a minor port on the North Kanara Coast. For this purpose the land communi-

cation to and from Bhatkal need improvement. If this port is improved, it will be a great facility to the state of Mysore. The Committee also suggests the development of a new major port at Sika, on the Gulf of Cutch, between Bombay and Karachi. Most of these recommendations have been accepted by the government, particularly that which includes the development of a sheltered deep sea port at Vizagapatam, capable of accommodating ships at least upto 650 ft. in length with drafts upto 30 ft. Regarding the Committee's recommendation on the desirability of developing Bhatkal on the west coast into a major port, the government considers that the project requires further consideration. But this much may be said from commercial point of view that Bhatkal has all the initial advantages of a deep-sea port, apart from the fact that being only 10 miles away from the state border, it can provide a good economic outlet for the trade of the large and rich hinterland of the Mysore State. The Government agree with the proposal of the Committee that expert opinion on the feasibility of the Calcutta Ship Canal scheme from the engineering, financial and other points of view should be obtained first.

A few words may now be said about docks. Most of our ports do not have docks. Only the few big ones are properly equipped. It is not that all ports shall be equally well-equipped. But it must be remembered that at least sufficient equipments must be provided in accordance with traffic considerations. For, they have a vital bearing on the economic prosperity of a country. It is well-known that the ocean-going vessels of the great maritime powers are increasing in size. If we have to carry on transactions with them—and actually we have to, both in matters of export and import—we must make adequate arrangements in as many ports as necessary for the berthing of vessels and the handling equipments must be such as can clear the ships within a minimum period of time and expenses. Many of our ports are far from satisfactory in this respect. In many cases the steamers have to cast anchor miles off from the shore and loading and unloading is done with the help of lighters, and in some cases with country boats. This is the condition in ports like Bedi, Bhavnagar, Mangalore,

Tellicherry, Calicut, Tuticorin, Megapatam, Pondicherry, Masulipatam, etc.

In the next category we place ports where some improvement has been effected. Thus at Cochin a dry dock at a cost of Rs. 4 lakhs has been completed under the New Harbour Scheme. In Tuticorin, about £15600 have been spent since 1911-12 in affording increased facilities for the landing, shipping and clearing of goods. The improvements include four piers, new trolly lines and improved storage. The harbour of Negapatam is equipped with wharves and other facilities for the landing and shipment of goods. The present amenities in the port of Chittagong consist of 4 jetties. There is already a proposal for developing Chittagong as a first class port.

The major ports of India are however considerably well-equipped. In Karachi the facilities of the port include a continuous line of wharfage 8600 ft. in length on the east side of the harbour, and on the west side, four new berths of modern construction of the total length of 1300 ft. These wharves can accomodate ten steamers of 550 ft., two of 500 ft., 3 of 450 ft., one of 400 ft., and one of 350 ft., with 26 to 29 ft. of water alongside, and one of 325 ft. with 18 ft. draft and 3 of 575 ft., and one of 600 ft. with 32 ft. draft. There are 10 electric cranes of 2 tons, 86 hydraulic cranes of 35 cwt., 7 of 30 cwt., one of 30 tons and one of 14 tons on the wharves; one 30 ton floating crane. The Boat Basin at the south end of the wharves contains the Commissariat wharf, the Passenger-handling pier and the Railway wharf. There is also a Bulk Oil Pier which lies south of the Boat Basin. Pipes are laid down from the Pier to the oil installations. Liquid fuel pipes and connections are available from berths 2 to 6 of the Keamari Wharves and are connected to the oil installations permitting two ships to be bunkered with oil fuel simultaneously or one ship being bunkered and one tanker discharging simultaneously in addition to the service from the oil pier. At the north-east end of the harbour are the Native Jetty and the Napier Mole Boat Wharf. Six lightering piers for landing and shipping stores and the heavy lift piers for landing and shipping stores and the heavy lift pier north of ship wharves.

accomodate barges. There are in addition 5 swinging and 13 fixed moorings. The port has also a dry dock whose length on block is 238 ft., breadth at entrance 50 ft., Depth on sill at H. W. O. S. T. 12¾ ft.

The port of Bombay has got three enclosed wet docks and two dry docks, the particulars of which are given below:

Name and date of Completion.	Width of Entrance	Depth on sill at H.W.O S.T.	Water area acres.	Lineal feet Quayage feet.	Number of berths (Including) Harbour Walls.
Prince's Dock (1880)	66′	28′	30	6910	14
Victoria Dock (1888)	80′	30′	25	7805	16
Alexandra Docks (1914)	100′	41′ on outer sill 37′ on inner sill	49½	16055	20 (plus 3 berths for ferry steamers)

Name & Date of completion.	Width ft.	Length ft.	Depth.
Mere Wether (1891)	65	525	26′ 6″ on sill at M.H.W.
Hughes (1914)	100	1000	34′ 6″ on sill at M.H.W.

Hughes Dry Dock is divided at the centre so that it can be used, if required, as two docks. Besides the enclosed docks, there are situated along the harbour front a number of Bunders or open wharves and basins where the traffic carried by coasting and country craft and "overside" cargo from the docks and the stream is handled.

All berths in the Alexandra Dock are provided with oil bunkering service pipes connecting with the liquid fuel installations and special berths are set aside at the Harbour

Walls for the discharge of bulk fuel oil, kerosene and lubricating oils. Bunkering and discharge can be carried out simultaneously as the service pipes have been duplicated.

A few months ago, the biggest floating dock to be constructed in India was launched at the Bombay docks. The floating dock is capable of docking ships of upto 50000-ton displacement and has been built at a cost of approximately Rs. 1,50,00,000. The dock which is 855 feet long, 172 feet wide and 75 feet high is a self-contained unit with a power plant, pumping machinery, a ship repair workshop and quarters for the crew. The most interesting feature about the dock is that every bit of the 20000 tons of steel that was required to make this mid-sea repair unit was fabricated in India, and that its construction is "a tribute to Indian workmanship which under proper guidance and direction was equal to the best in any part of the world."

The port of Madras has got seven wharves, five of which are provided with all modern convenience for rapid discharge and loading. There are also seven mooring berths inside the harbour and one outside. The western face of the harbour has been quayed so that the ships can now lie alongside and work cargo direct out of, and into, the sheds. There are three other quays for the discharge of oil and petrol, coal, horses and cattle. Oil from bulk oil steamers is pumped ashore direct through the pipes into the merchants' installations.

The Port of Calcutta has wharves as follows:

Kidderpore Docks—Dock No. 1—2700 ft. in length by 600 feet in width with a depth of 30 ft. of water and has 12 berths serving single-storeyed cargo sheds. In addition, there is one general berth in the tidal basin.

Dock No. 2—4500′ × 400′ × 30′. It has five general produce berth serving double-storeyed sheds and 11 coal berths.

King George's Dock—Opened on 29th December, 1928, and comprises a Lock Entrance 700 ft. long by 90 ft. wide, two graving docks arranged in tandem, three import berths, one export berth, one lying-up berth, one berth for the discharge of non-dangerous petroleum and a special berth for inland steamers.

Five dry docks owned by the Port Commissioners are available for the use of shipping, three in the Kidderpore Dock; they are able to take the largest vessels trading to the port.

There are seven steamer jetties. The Garden Reach jetties, finished since the first great war consists of a coaling jetty for ships upto 463 ft. in length and 4 jetties for ships upto 600 feet, and they are built on the most modern lines. The Calcutta jetties situated on the river side below Howrah Bridge are the oldest part of the port and were taken over from the Government by the Commissioners in 1870 when the Commission was first instituted. There are nine jetties in all, out of which one has been put out of commission as a measure of economy, two are reserved entirely for boat traffic and six are available for ocean-going steamer.

The petroleum wharf at Budge Budge is situated some 14 miles below the entrances to the docks. The storage installations which have a total capacity of over 50 million gallons are owned by various companies who rent sites on land owned by the Port Commissioners. A few words need be said about the storage facilities available at ports. A warehouse may be defined as a godown or a shed where accomodation may be let out under certain specified regulations. Warehouses in so far as they are available are mostly confined to ports and are usually owned by Port Trust Authorities, or by the Government. The warehouses have very important services to render in the field of commerce. Warehouses at the port are of use both for goods going out and coming in—for the former when no shipping space is available all on a sudden and for the latter when the taking of delivery is delayed for some reason or other. For internal trade purposes also, these storage facilities at ports for imported products are very essential. For, obviously, it would be more expensive for traders once to remove the goods from the port to their own godowns and thence to give delivery to their customers. The cost for excessive movement of goods can thus be avoided and the storage facilities available in the interior may be utilised for other purposes. Besides, the storage facilities at ports give specialised services which cannot be available in pri-

vately owned godowns. This can be illustrated by extensive oil installations at ports. The Port warehouses also offer a number of other facilities as well which are very essential to traders, *e.g.*, they allow the taking of samples, inspection of goods by prospective customers, sale of goods in small consignments, preparation of goods for sale by arranging them in suitable lots or by arranging the different qualities, etc. If the warehouse is a bonded warehouse, it accepts goods for storage before payment of customs duties. This is convenient for the importer in so far as he can pay duty on whole or part as he removes the goods for sale instead of paying the entire amount at a time and long before the sale. The warehouse facilities are available at the major ports, while some of the rest provide open space or some sheds for the purpose and cannot therefore be regarded as providing requisite storage facilities. Even in the major ports, in busy seasons, the available facilities have been found to be inadequate.

At Karachi, the Port Trust has provided open air plinths paved with flagstones for the storage of wheat, seeds, cotton and other commodities. These plots are leased out to merchants some of whom have erected light sheds at their own cost. This sort of open storage at Karachi serve the purpose because of the fact that rainfall here is very low and spasmodic and in some year there may be no rain at all. At Bombay the Port Trust has transit sheds and warehouses in the docks and have provided storage accommodation at various places on land owned by it, *e.g.*, the Rayan Grain Market, popularly known as the Dana Bandar, The Grain Depot, the warehouses at Mandri. The space is let out to exporters and other merchants. The Cotton Depot which covers an area of 127 acres and is one of the largest in the world was constructed in 1923. The Grain Depot is over 80 acres in extent and provides more than one million square feet of covered accommodation. It was opened in 1914 for the reception, storage and shipment of grain and seeds and has been extended in subsequent years. Each Dock in the Port of Bombay has an extensive range of warehouses fronting on the main roads behind the docks and are served by railway so that goods can be loaded direct into railway

wagons. A certain number of warehouses, known as "protected", are reserved for the storage of special classes of cargo, chiefly piecegoods. There are several other storage depots for trades, such as, Manganese ore, coal, building materials, hay and straw, etc. Besides, there are two government owned tobacco warehouses, which are in charge of Excise Department. One of them is used for the warehousing of tobacco for consumption in Bombay or other parts of India and the other for that which is exported. The warehouse accomodation in the port of Madras covers over 16 acres and includes 5 transit sheds for the storage of goods between ship and shore. The available space is used by shippers dealing in groundnuts and other products which ordinarily have got to be cleaned, dried and graded before shipment from Madras. Besides, there are two regular bonded warehouses owned by two leading cigarette manufacturing firms and they are used for the manufacture of cigars. At Calcutta the Port Commissioners provide extensive warehouse accomodation consisting of two tea warehouses having a storage area of 304000 sq. ft., a Grain and Seed Depot at Kantapukur having a storage area of about one million sq. ft.; "A" and "B" sheds at Kidderpore, and the Fairlie, Clive, Canning and Strand Warehouses situated close to the Calcutta jetties. Much of this accommodation is let out to firms who then become entirely responsible for the custody and handling of goods therein. The remaining area is utilised as public sheds and the liability thereof remains with the Commissioners. Besides, there are a number of bonded warehouses belonging to the government and Port Commissioners. Most of them are leased out to private companies and firms and are under the control of the Bengal Bonded Warehouse Association Ltd. Warehouses containing goods for which duty has not been paid are under the control of the Customs Department. In the port of Chittagong, the railways have constructed seven sheds, of which three are storage sheds and four transit sheds. The storage sheds are used for rice, tea, jute, and miscellaneous cargo removed from the transit sheds.

Marine Transport.

Before the introduction of iron and steel steamships, India had not only a huge mercantile marine carrying on trade with all parts of the then known world but also she had a prosperous ship building industry which won admiration of many foreign travellers. This industry produced ships not only for home but also for foreign countries including England. Since the introduction of the mechanical means of transport in the west and more particularly since the opening of the Suez Canal in 1869, Indian superiority in ship-building has become a part of history and she could not adjust herself to the change, not because of any inherent inability, but because of political factors. India's oceanic trade is by no means negligible. In 1939-40 it amounted to Rs. 429.46 crores, although in the year before the depression the figure was much higher. Almost all this trade is carried on by foreign shipping companies, India's share being hardly 4 p.c. This not only means a dependence on foreign shipping companies, but also a huge financial loss on account of the payment of freight and also a great inconvenience in the terms quoted. During the years of war, when all foreign nations were busy over their own affairs, the shipping space available to India was curtailed to a minimum. We could not import according to our requirements but had to export according to the requirements of the government.

Shipbuilding is a type of enterprise in which state assistance is almost unavoidable. Take the case of any country of the world and it will be found that ship building is the result either of Government enterprise or of a considerable amount of state assistance. Even the development of British shipping is the result of the four hundred years' operation of the Navigation Acts, the earliest one being passed in 1381 for the development of shipping for defence purposes. Another Navigation Act was passed in 1651 and re-enacted in 1660 with a view to encourage English shipping, to make England an entrepot or distributing country, to make the ship go on a long distance voyage, to make colonial trade centres in England and to out-distance the

Dutch and employ Englishmen as seamen. Only in 1824 some change of policy was introduced under Huskisson when foreign nations were admitted to full equality and reciprocity in matters of navigation rights and treaties were entered into with important industrial countries. But coasting trade was still reserved. The right to trade with the colonies was granted to those nations who granted similar rights in return. Only during 1849-54 all these reservations were given up.

The policy of the Government of India has been one of *laissez-faire* all through the period. The result was that India's foreign trade which had increased since the opening of the Suez Canal became concentrated in the hands of foreign shipping companies in general and the British companies in particular. Thus the present arrangement for the transport of goods is that there are a number of steamer services between India and Europe, including England and also other countries which are known as Liner Tonnage. Liner space is booked through freight brokers at the ports in India and the freight is payable at the port of loading. But when large quantities are to be exported, vessels may be specially chartered in London by the exporter. This is effected on the Baltic Exchange in London, freight being payable in the U. K., usually London, after discharge. For obvious reasons, freight by chartered vessels is almost invariably cheaper than freight by regular services. The Liner services belong to one or other of the Conference Lines. Shipments to some of the countries in the East are however made by "tramp" steamers chartered specially for the purpose.

Till the end of the last century, the British shipping companies monopolised shipments from India. Between 1900 and 1914, the German, Austrian, French, Italian and Norwegian vessels entered the scene. During the years of the first great war, not only the total tonnage and number of ships engaged in Indian trade declined, but also the nationalities taking part underwent a change. An officer was appointed at this time in India who was to act as an agent of the Shipping Controller in England, and his function was to economise the use of available shipping space to

the greatest possible extent. This all the more reduced tonnage which was already disturbed by the war. The German and Austrian ships altogether disappeared for the time being, while the number of British and French ships declined considerably.. Thus a good opportunity was created for the Japanese and American ships which obtained a strong foothold. The ships belonging to other European nations, *e.g.*, the Dutch, the Italians, the Norwegians, the Greeks and the Swedish, came to take great part. Chinese and Spanish shipping began to take part for the first time. In the post-war period, once more the German ships made their appearance and by 1923-24, the non-Indian shipping, particularly in India's foreign trade, surpassed the pre-war tonnage.

The Indian opinion was quite conscious of the need of a mercantile marine and also of the present handicaps in the way of its development. It had always demanded a reservation of the coastal traffic to Indian shipping, which in fact had been the case with all countries of the world, the abolition of the deferred rebates system and the adoption of an impartial outlook. In matters of mail subsidies and carriage of government stores, the government patronage had actually gone to a number of British shipping companies. In the years following the first great war, the Indian demand in this respect was so pressing that ultimately the government appointed the Indian Mercantile Marine Committee in 1923 to consider and report on the question of production of Indian shipping and shipbuilding industry. The Committee offered a number of recommendations, the most important one being the arrangement of the training of Indians in marine engineering at engineering colleges and also by arrangements with all the vessels, plying in coastal waters who should be required to employ Indians as apprentices, the reservation of coastal trade for vessels under Indian ownership and control through a system of license or permits which are to be issued after examining whether a vessel is registered in India and is owned and managed and manned by Indians, the consideration of the grant of navigation bounties to purely Indian shipping companies in respect of overseas trade to other

countries, and the encouragement of a shipbuilding industry at Calcutta, preferable by an Indian company. Calcutta was favoured by the committee for the site because it is in the vicinity of the coal and steel producing areas. According to the committee, the Government assistance to the industry should take the form of granting of construction bounties, cheap loans and help in acquiring suitable site, and in many other matters. None of these recommendations was accepted except that the Royal Indian Marine Vessel, "Dufferin," is being used as a training ship. In 1928, a Bill was introduced in the Legislature by S. N. Haji for the reservation of coastal traffic and it created the greatest amount of agitation. The author of the Bill as also the Indian opinion were vehement in their argument that this privilege was a right and has been enjoyed by all nations in the past for the development of their own shipping and there was no justification in denying it to the Indians. The Indian Shipping Conference of 1930 in which the representatives of both the Indian and British interests were present however could not come to an agreement because of the vehement opposition of the British interests who had put their money in the line and who considered any such step as being a virtual expropriation of the capital of a large number of British companies from this business. Naturally, the interests differed and agreement was impossible. The Bill was ultimately dropped. The same fate overtook the Bill for the Abolition of the Deferred Rebate System. The Government of India Act, 1935, put a stop on the matter by making discrimination against British interests impossible. The commercial safeguards in the Act indicate the victory of the British vested interests in India, in whatever form, and wherever it is. The Government has however tried in recent years to induce the strong British companies operating in Indian coastal waters to co-operate with Indian concerns.

In 1937 the Coastal Traffic Bill was introduced in the Central Assembly by Sir A. H. Ghuznavi. Its object was not discrimination but regulation of unfair competition in coastal waters, *e.g.*, rate cutting, granting of rebates, etc. Redrafting the Bill the Select Committee empowered the

Government to fix minimum rates of fare and freight and the charging of rates below this minimum was to be made a penal offence. The Government considered the Bill as impracticable and unnecessary though they agreed to limit coastal shipping within limits. In 1939 the Council of State passed a resolution by P. N. Sapru asking the Government to take more active steps in matters of expansion and protection of Indian shipping. It was pointed out that the Government had done nothing for the furtherance of Indian shipping interests when entering into trade agreements with Britain. No concrete results have followed.

The second great war came as a reminder as to the deficiency of the country in matters of shipping. Once again the foreign countries were absorbed in their own affairs. In 1944 the Commerce Member gave high hopes regarding the post-war shipping policy of the Government and it was pointed out that the aim of this policy would be to secure for India an increased share in coastal and overseas trade. But as the *Eastern Economist* rightly pointed out, "it is common knowledge that the greatest obstacle to the growth of Indian shipping comes from Britain. . . . If only the Government adopted a bold policy, the country will have a shipping force commensurate with its defence and trade requirements. . . ."

Sometime back the Government appointed a Reconstruction Policy Sub-committee on Shipping. The Committee points out that the "fundamental considerations make it imperative in the interest of India as well as in the interest of other countries in the Indian ocean that India should have a large and powerful navy." It has recommended that the coastal trade of India should be reserved for Indian shipping, that Indian shipping should have at least 70 p.c. of what might be described as the geographically adjacent trades and that national shipping should have 50 p.c. of the distant trades. The sub-committee also urged that the Government should secure for Indian shipping its due share in the trades formerly carried in the axis vessels in the Orient. At least 30 p.c. of the trades formerly carried by the Japanese ships should be secured for the national shipping of this country. For the purpose, India

would need about 2 million gross tons of shipping. The past history of Indian national shipping has been "for the national shipping companies a sad story of ceaseless struggle and sacrifice; for the people of the land it is a painful chapter of bitter disappointment at the lack of response from the Government of India to their demand for stability and expansion; and for the Government of India it is a tragic tale of broken promises, unredeemed assurances and neglected opportunities. . . . The rapid growth of Indian mercantile marine is a matter of great national urgency, and in view of our sad experience during the war that has just ended, the Government of India should do all that is possible to ensure that these two million gross tons of shipping are acquired before the end of seven-year period." On this the Government passed a resolution indicating its intention to assist Indian shipping as far as possible to reach the targets laid down by the sub-committee. The targets for the next five to seven years include a cent per cent increase in Indian shipping in the coastal trade, a 75 p.c. increase in the trade between India, Burma, Ceylon and other geographically contiguous countries, and a 50 p.c. increase in distant trade.

As a result of partition India lost approximately 650 miles of her original 3000 miles of sea frontier. During the peak period of world war II the strength of the Indian Navy was 27000 and after demobilisation on August 14, 1947, the strength was roughly 10000 men. After partition India got 5500 ratings and 553 commissioned officers. Partition meant loss of Karachi which accomodates a number of training establishments. The boys' training establishment had to be removed from there to Vizagapatam. The largest gunnery school in Asia was also situated at Karachi. It is likely that India's gunnery school will now be opened at Cochin. Most naval training establishments are now centred at Cochin. The Artificers' Training Centre is at Lonavla, the Electrical School at Jamnagar, the Signals School, the Anti-Submarine School and Supply and Secretariat School are now at Cochin.

In November 1947, the Commerce Member chalked out

a six-point government plan for the development of Indian shipping. The broad outlines of the plan were:—

(1) The Government should immediately take the initiative in establishing two or three shipping corporations;

(2) To each corporation, in order to ensure and retain effective control, the Government should contribute not less than 51 p.c. of the total capital. The balance would be subscribed either wholly by an approved existing shipping company or partly by such company and partly by the public;

(3) The Government would be entitled to nominate a number of directors on the board of directors of the Corporation proportionate to the share of the total capital subscribed by them;

(4) No private company would be associated with more than one such corporation and where no one existing company was found suitable, participation by a group of companies would be permitted;

(5) A company or group of companies so associated would act as agents of the Corporation under the control of the directors of the Corporation and on such terms and conditions as might be stipulated in the managing agency agreement;

(6) Ordinarily 100000 tons would be regarded as the optimum tonnage for operation by each corporation.

In 1948, the Government has introduced a revised system of training for India's merchant navy personnel based on the recommendations of the Merchant Navy Officers' Training Committee. It provides that the training ship *Dufferin* shall be reserved for the training of executive cadets. Other arrangements are being made for the training of engineering cadets. Previously pre-sea training was imparted on the *Dufferin* to both executive and engineering cadets. The Government of India have set up a Nautical & Engineering College in Bombay to provide advanced instruction to candidates who have completed the prescribed training and are preparing to sit for professional merchant navy examinations. Another important event of the year

in the history of shipping of this country is that the India Steamship Company has been admitted as a member of the India-United Kingdom-Continent-Conference, and Indian vessel *S. S. Indian Trader* (11000 tons) left for London on July 12, with a cargo of jute and tea.

Ship-building Yard at Vizagapatam

India has a long history of ship-building in her favour which need no repetition here. The industry had however declined since the coming into existence of steamships and no efforts were made to develop the industry in modern lines. Since the consolidation of the British rule, therefore, British and other foreign ships were serving the coastal waters of India, to the greatest detriment of Indian interest. The absence of modern shipbuilding yards in India was however felt during the first great war when these foreign ships were very inadequately available to us and a representative conference, meeting at Delhi in 1918, urged upon the Government to take measures for the construction of modern ships in India. The Government also felt the necessity at that time but with the cessation of hostilities the importance of the question from the standpoint of the Government receded in the background. The Scindia Steam Navigation Company which was floated in 1919 had the idea of developing an Indian Merchant navy consisting of ships built in Indian shipbuilding yards.

The efforts of the Scindia Company became successful in 1941, though the company had to face much troubles put in their way both by the Government and by the existing foreign companies serving in the Indian waters. The essentials of a shipbuilding yard are: (1) a suitable site, (2) requisite depth of water, (3) proximity of raw materials, (4) supply of labour, (5) Dry docking facilities, (6) road and rail connections, and (7) supply of fresh water. The Company selected Calcutta as a site, but it did not materialise because of the attitude of the Port Authorities. The next choice was Vizagapatam which satisfied the above essentials. In a good shipyard, there must be ample areas for storage of raw materials, workshops for preparing raw steel for con-

struction of the ship's hulls, an inclined area near to deep water on which the hulls are erected, workshops for preparing the internal fittings and furnishings of the ships and a berth or wharf at which the ship may lie while machinery, fittings and furnishings are installed. The Scindia shipyard at Vizagapatam at the first stage of development will have about 115000 sq. ft. of hull structural workshops with the latest type of shipbuilding machinery and served by powerful overhead electric cranes. The shipyard site at Vizagapatam is sufficiently large to accomodate eight building berths or slipways on which ships upto 550 ft. long can be built. Two berths for large vessels have been constructed. The group of workshops in which metal fittings are made comprises a foundry, a smithy, machineshops, sheet iron work, copper-smith and plumber shops and covers an area of over 60000 sq. ft. A complete wood-working plant is installed covering an area of about 50000 sq. ft. where timber in the form of logs brought by the Scindia Company's steamers from Burma can be fashioned for the many purposes it fulfils in a ship. The fitting-out wharf, five hundred feet in length, is provided with sufficient depth of water alongside to accomodate the largest vessels built, while their machinery, cargo-handling equipment, etc., is placed in a position on board and accomodation for officers and crew and ships stores, etc., are furnished. The shipbuilding yard is the first of its kind in India and it has already constructed a ship and the enterprise deserves the sympathy and wholehearted co-operation of the Government and the business community in this country.

Air Transport

Civil aviation is a recent addition to the existing transport agencies and since the first great war it has made considerable headway in western countries. The factor of great importance in favouring this type of transport is the vastness of the country. The commercial importance of a country and its connection with other countries of the world are also equally important factors. India satisfies all these conditions. Countries of small size have compara-

tively little scope for it, because over short distance air transport cannot provide any special advantage over other forms of transport. That explains the slow growth of air transport in England. But so far as India is concerned, the vastness of the country, the diversity of conditions between different inland centres and the commercial importance of different areas situated throughout the country present a case for the quickest means of transport.

Although we can trace a minor effort in this direction as early as 1911 on a very small scale, civil aviation in proper sense did not come before 1927. Between 1927-31, arrannmements were made for the construction of a few aerodromes and landing grounds in some important places and between 1927-34 a number of flying clubs were started at Jodhpur, Delhi, Karachi, Bombay, Madras, Calcutta, Lucknow and Lahore and these have received Government assistance. A number of Indians are trained in the art of piloting and aeroplane engineering at these clubs The credit for the earliest air service in this country goes to the Imperial Airways Ltd., which was working under government patronage. The Government also undertook an experiment in the same by arranging an air service between Delhi and Karachi, this under their own management, though making use of the staff and the aeroplanes of the Imperial Airways Ltd. This arrangement expired in 1931 when the Government of India was contemplating the linking of the important cities by airways and the idea had to be abandoned because of the coming of the depression and consequent financial difficulties. Once more, private enterprise had to be encouraged. The first Indian concern in this field was that of Messrs. Tata & Sons, Ltd., which arranged for a regular service between Karachi and Madras, *via* Bombay. Another concern, the Indian Air Survey & Transport Ltd., was formed by government encouragement and undertook the work of land surveying in Bengal. French and Dutch air-mail services were arranged between India and Indo-China and the East Indies, which the Indian Trans-Continental Airways Ltd., began to carry mail and a limited traffic to Australia from 1933. Regular weekly Imperial Airways service was arranged between

England and Karachi. India became a party to the International Air Convention. In 1934 the Himalayan Air Transport and Survey Ltd., was formed with a view to organise transport service between Hardwar and Badrinath. Thus before the outbreak of the second great war there were regular services for mails and passengers between the important cities of India, *e.g.*, Karachi-Colombo, Karachi-Calcutta, Bombay-Kathiawar, Karachi-Madras, Calcutta-Delhi, *via*, Allahabad, Calcutta-Dacca, Calcutta-Rangoon *via* Chittagong and Akyab, Bombay-Kolhapur, etc. The recent entrant in the field is the Scindia Steam Navigation Co., Ltd., which has taken over the Air Services of India, Ltd. Another enterprise going to the credit of the same company is the Hindusthan Aircraft Company Ltd., which has been registered in the Mysore State under the joint enterprise of the Scindia Steam Navigation Company and the Mysore Government in 1940 for the production of air-crafts within the country. Bangalore is the site for the factory, because of its nearness to the Bhadravati Iron & Steel works and availability of cheap electrical power there. The factory was purchased by the Government of India though the Mysore Government retains a financial interest in it.

The post-war civil aviation plans of the government, as declared after the war, were quite modest and the scheme envisaged one daily service between the principal cities. Internal air lines would be run by Indian concerns with Indian capital and management. The plan envisaged the construction of about one hundred aerodromes and landing grounds for air services, both internal and external. It was also stated that the Government did not contemplate the nationalisation of air transport although in particular cases they might operate the air services themselves or take financial interest in partnership with private enterprise. It was also announced that an Air Transport Licensing Board would be established for securing co-ordinated development of airways and avoiding the waste of duplicating lines. But so far as the production of aircraft was concerned, the policy of the Government was not very bold. For, since the termination of the managing agency agree-

ment between the United States Air Force and the Hindusthan Aircraft Co., Ltd., the management of the company had gone into the hands of the Supply Department, and was being used for the purpose of reconversion of aeroplanes and manufacture of the railway coaches.

According to the above plans, an Air Transport Licensing Board has been established. Originally the Board consisted of high officials; but subsequently the constitution has been changed and the Board consists of three members, including the chairman. But since it is essential to maintain high technical standards, a close co-operation between the Board and the Civil Aviation Directorate have been considered essential. In explaining the function of the Board, the Member for Communication pointed out. "It is not the Government's intention to put unnecessary obstacles in the way of the working of the various operators who may be desirous of operating on various routes, nor does it intend to create a monopoly in favour of one or a few of the operating companies. It is Government's intention to put no restrictions on various companies obtaining their machines from any source which may be available to them or in the purchase of serviceable machines in India. The allocation of various routes to particular companies will be the function of the Board, whom the companies will have to satisfy in respect of their financial resources and technical organisation." Besides, fly-clubs have been reorganised on a new peace-time subsidy basis. Subsequently, the Government favoured the stopping of subsidy but decided to provide and keep properly equipped landing grounds, wireless stations, meteorological facilities, etc., for the use of the aeroplanes operating on various rates. The Civil Aviation Directorate itself has been reorganised into two divisions dealing respectively with aerodromes and administration and air-craft operations. A separate aviation wing of the Central Public Works Department has been formed from July 1946. By October 1946, about 19 companies were floated in order to take part in civil aviation of the country. According to the survey by the Civil Aviation Directorate, this large increase in traffic was made possible by the rapid expansion of aircraft fleets and operational

resources accomplished by the operating companies. The development of civil aviation in India during the year 1947 as against 1946, is indicated below, the figures in the brackets being those for 1946:—

2800000 (1000000) passengers were flown and 4400000 lbs. (1300000 lbs.) of freight carried. The number of passenger miles flown totalled 137000000 (61000000) , and the capacity in ton-miles amounted to 18500000 (8500000). Eight (five) companies operated 21 (16) routes. The number of aircrafts increased by 60 p.c. and personnel by 300 p.c. during 1947.

At present there is a considerable demand for international air services connecting India with other countries of the world. In this respect mention may be made of the British Overseas Airways Corporation operating direct services between India and the U. K., and also services between the U. K. and Singapore, and the U. K. and Sydney, both *via* India. There is no doubt that international services are essential and India must keep pace with developments that are taking place elsewhere.

In order to provide expert technical personnel for the requirements of the country and future development of civil aviation, the Government contemplates the establishment of several institutions in various parts of India for training pilots, mechanics, wireless operators and other necessary personnel for air services. India also requires to develop industries for making aeroplanes, their engines, wireless and other instruments which are required for the purpose.

The question of nationalisation of civil aviation has been raised by some people. On principle, nationalisation is no doubt essential in essential services of which civil aviation is one. But there are obstacles in the way, at least in the present stage. "The present policy of Government on this question is to allow private companies, licensed by the Air Transport Licensing Board, to operate the internal routes. In coming to the conclusion, Government has been greatly influenced by the consideration that its machinery is not as yet so highly developed as to enable it to undertake actual operations in aviation. The progress of

civil aviation in the beginning can be achieved more by permitting private companies to operate on internal routes under strict Government licensing and supervision. Government hopes that on account of private enterprise, greater facilities, efficiency and courtesy will be available to the passengers than if the services were to be nationalised at this stage. So far as external services are concerned, however, Government proposes to take a substantial share in corporations which are likely to be formed in the near future.'' Sometime back, the Standing Advisory Committee to the Ministry of Communications has favoured the nationalisation of India's air services. The Committee has however accepted the suggestion that a departmental committee which would include some members with practical experience of aviation, should be appointed to study the feasibility of the Government starting an experimental service on one route.

Before closing this chapter, a few words may be said about the development of civil aviation in 1948. In February 1948, the situation was as follows:—

(1) 3 big airports at Calcutta, Bombay and Delhi (Palam) maintained on international standards.

(2) 7 major aerodromes at Ahmedabad, Allahabad, Lucknow, Madras, Nagpur, Patna and Vizagapatam.

(3) 13 intermediate aerodromes and 22 minor aerodromes.

(4) 26 aerodromes in states acceding to India,

(5) Estimated cost of maintenance in 1947-48 was Rs. 40,59,000:

(6) Revenue from fees for grants and renewal of licenses and certificates, landing and housing fees, rents of lands and buildings at aerodromes, etc. Rs. 16,65,930.

(7) Net receipts from surcharges on inland and foreign air mails during 1946-47 Rs. 1,41,32,000.

The Report on the progress of civil aviation in the second half of 1947 released by the Ministry of Communications reveals that there has been an increase of 100 p.c. in miles flown and 77 p.c. in ton miles operated during last

year as compared with preceding year. After partition there were 23 companies with an authorised capital of Rs. 42.2 crores. Air services were operated on 22 routes covering 13295 route-miles by 8 transport undertakings. There were 16 daily services and 42 weekly services. Total miles flown were 4648155 and traffic carried were 8 million ton-miles. The regularity factor was as high as 95.9 p.c. During first sixth months of 1948, progress took place along the following lines:—(1) A 25 p.c. increase in air traffic over the preceding half year, the miles flown being 5874380 and the passengers carried 175734; and a 27 p.c. increase in the weight of freight, mails and newspapers carried—air freight 1421 tons, newspaper 743 tons and mails 286 tons.

(2) A 3.8 p.c. improvement in the factor of regularity which was 99.7 p.c. during the period.

(3) An increase in the number of aircraft registered in India from 551 to 614.

(4) An increase in the number of pilots.

(5) Improvements to existing aerodromes and development of new aerodromes in various parts of the country. Some comparative statistics are given below:

		July 1, 1946 to June 30, 1947	July 1, 1947 to June 30, 1948.
Hours flown	...	48629	66554
Miles flown	...	7509660	10594242
Load capacity	...	14536945 ton miles.	21475088 ton miles.
Passengers carried	...	188796	315446
Freight carried	...	2310164 lb.	6216127 lb.
Mails carried	...	1356741 lb.	1320398 lb.
Newspapers carried	...	227680 lb.	2804230 lb.
Total Load	...	10915075 ton miles.	17148622 ton miles.

CHAPTER XVI

STATE & BUSINESS.

The increasing complications in the business life of a nation have led to a complete change in the attitude of the state towards it. Broadly speaking, the philosophers have placed themselves into three groups, the anarchists declaring the state as an unnecessary evil, the individualists regarding it as necessary and yet an evil, while the socialists urging the maximum amount of intervention by the state in the economic life of the country. To-day we have reached such a stage in the economic development, both internal and international, that no country of the world can think of an economy cent per cent free from state intervention. It is not merely necessary but also inevitable. State intervention is therefore an accepted fact; the degree of intervention is the only thing to be considered.

No hard and fast rule can be laid down in this respect. It all depends on the degree of economic development within the country and the degree of economic development outside. For, to-day, no country, conscious of its interests, neglect the latter factor, and in this race for economic development, the deficiency of a particular country, the economic level which it has attained is the best determinant of the requisite degree of state intervention. A few words regarding the comparative economic development of other countries and the role of the state therein will not be out of place. So far as the British economy is concerned, the state was a predominant factor till the middle of the last century. Then the state withdrew for the time being not only because the development of capitalistic type of business enterprise in the then conditions of Britain required an unhampered development and initiative on the part of the private individuals but also because such intervention was rendered unnecessary because of the lack of competition in the world market. Britain was not only a monopolist within her empire but even outside, supplying her manufac-

tured goods to the world markets. In fact, Britain was "the workshop of the world during 1850-73. . . . As the builder of railways and steamships, the provider of engineering tools, rails and locomotives, England was unrivalled during these years. . . . A new industry arose—iron and steel, ship-building, which made Great Britain by far the greatest ship-builder. . . ." This state of affairs was rendered possible even without the intervention of the state, partly because of the economic backwardness of the other regions and partly because of their pre-occupation with internal political problems. The unification of Italy and Germany, the Meiji Restoration in Japan, the civil war in America and the emancipation of the serfs in Russia were questions so important and vital that they were not only engaging the full attention of their administrations but were also standing in the way of the economic development of these countries. It is rightly said that the United States really justified its name only after the civil war which resulted in economic unification. The same is true of other countries. This being the case, the withdrawal of the state from business enterprises in Britain was justified. This however is not to mean a cent per cent withdrawal. The existing regulations like labour and factory laws continued to apply. Only direct intervention was not made. And as soon as the world conditions changed by 1875, a number of people began to clamour for state intervention for protecting business enterprises or at least for imperial preference. For the time being, Britain could neglect these suggestions, but the first great war was a challenge by the newly developed industrial powers to the industrial and commercial monopoly of Britain, from which Britain never came out unaffected and the question of state intervention was taken up in earnest not only by the Neo-classicists like Pigou but some of them even parted company and began to suggest "comprehensive socialisation of investment." (Keynes). The question was taken up by the state and the interventions that had their beginning in the years of the first great war went on increasing in the post-war years, reaching their culmination in the Ottawa Conference and trade agreements of subsequent years.

At this stage, it is essential to clarify a particular point. Increasing intervention by the state in the economic life has been interpreted by some people as a step towards socialism. Nay! whenever the question of the role of the state in presentday economy or in future economy is considered, the issue is most often confused as one between socialism and capitalism. Nothing can be greater wrong than this. Elsewhere I have written as follows on this issue: The development of capitalism "may take place in an atmosphere of free competition and *laissez-faire*, or under the direction of the state, the latter being more common nowadays even in countries which once preferred *laissez faire*, the idea being that state capitalism is much more effective than its *laissez faire* prototype. But then state capitalism is no alternative for socialism; it is only a substitute, and indeed a more effective one, for private capitalism. There is nothing to choose between the two apart from the factor of effectiveness according to changed times and circumstances." (cf. My *Towards Marxian Destination.*) So state intervention should not be confused with socialism. It is only a phase of capitalism where private initiative has become less effective and intervention on the part of the state is called for. Socialism is the name of a particular stage in the economic development and till that stage has been reached, no amount of intervention by the state can bring socialism into existence. If state intervention is the criterion for socialism, then we must say that Japanese, American or German economies are socialistic economies. But that is a misnomer.

The phenomenal rise of Germany, U. S. A. and Japan as first rank industrial powers was again the result of state intervention. In fact, state intervention in economic affairs is the only effective means of expediting matters in those economies who are late comers in the race. Take the case of Germany. Although reforms had been introduced at places from the beginning of the last century either by the French or by the enlightened Prussian administration, many of the old institutions continued upto 1870. Really speaking, revolutionary changes in German economy began only after 1870 and by 1914, Germany as an industrial

power was at par with Britain and in some lines, had surpassed her. In fact, the competition of Germany was felt even in neutral markets. Thus the Commission on the Depression of Trade had reported in 1886, "In actual production of commodities, we have now few, if any, advantages over them, and in a knowledge of the markets of the world, a desire to accommodate themselves to local tastes or idiosyncracies, a determination to obtain a footing wherever they can and a tenacity in maintaining it, they appear to be gaining ground upon us." Or as another writer says, "starting......on a low plane, Germany contrived gradually to raise the quality of her manufactures and to compete successfully with her rivals for the possession of the most desirable branches of the world's trade. Not only that; by 1905, the foreign trade of Germany was only second to that of Great Britain." And this comprehensive, co-ordinated economic development could only take place because "behind loomed the all-powerful state......eager to aid the progress of industry by all means, by tariffs, by bounties and by preferential rates." This is the secret of Germany's success in the transformation from the old Agrar-staat into the Industrie-staat of the present day.

The story behind the rise of the United States as a great industrial and financial power is also the same.* The entire process was carried through a thoroughly closed economy for which the state has made arrangements by protective tariff. Unlike Germany, the pressure of the United States was not however felt much in outside world till the end of the first great war. The preparation for her intervention in world economy was going on within the borders of a closed economy since the civil war and ultimately the ground was prepared by the first great war as a result of which she turned from a debtor into a rich creditor nation of the world. Since the civil war, the United States administration had pursued a commercial policy, partly dictated by financial reasons and partly by the desire to develop the home economy, in which protective duties on imports had loomed large. It is not that under the financial strain, the internal producers and distributors went untaxed. Taxes were imposed on them; but all through it was cautiously

remembered that "if we bleed the manufacturers, we must see to it that the proper tonic is administered at the same time," and in the words of Taussig, "no session, indeed, hardly a month of any session passed in which some increase of duties on imports was not made." The policy was continued in subsequent years and in 1890, under the McKinley Tariff, protection was granted even to agriculture. The duties reached the highest level in 1897 under the Dingley Tariff when practically every commodity that appeared to need protection was offered this advantage. The United States Administration could neglect foreign trade for the time being because of the balanced nature of her economy and extensive domestic market. But then it was not totally neglected, and whenever possible, trade agreements on the basis of reciprocity were resorted. In fact, state assistance had been comprehensive and varied according to the requirements of the country.

The rise of Japan as a first-rate industrial and commercial power is of particular interest to us. For it indicates what an Eastern power, much less fortunate in matters of the supply of resources than our own country, could achieve by dint of persistent effort of the nation under the guidance of the state. "Although the regulative authority of the state has at times tended to weaken with the growth of private capital and powerful vested interests, the Japanese national bias in favour of corporate effort under official leadership remains clearly apparent in the present-day organisation of industry and commerce." The story also indicates the dynamic role of the state, changing with the change in economic development. The state started as entrepreneur in the initial stages. The state ownership was however exchanged for private ownership in the eighties of the last century when the state assumed the role of industrial financier. In the years following the first great war, the intervention of the state increased because the state undertook rationalisation of the industries.

The wonderful progress made by Russia under the Bolsheviks is entirely due to the centralised planning. Without the intervention of the state, the phenomenal growth of heavy industries in that country would not have

been possible even for a century more. For, in these days private initiative is of little use unless it is backed by the entire machinery of the state. But then one thing must be remembered. The state must be a conscious state, conscious about the interests of the people, and capable of taking action. Mere political independence does not solve matters. Even before 1917 Russia had what is known as external freedom. Yet the state was of little use because of the fact that internal freedom was lacking. The state was neither very conscious, nor was it capable of taking action even if it so desired, because of the existence of so many socio-economic institutions that were hampering progress.

India suffered in all these respects. She had neither external freedom nor internal freedom nor are her socio-economic institutions flexible enough, with the result that whatever role had been played by the state, it had gone more to hamper progress rather than expedite it. Moreover, the imperial interests had always loomed large. Leaving aside many of our socio-economic institutions, which have hampered progress in the past, and continues to do so, we never had a conscious state since 1800, nor was it capable of taking any action against imperial interests, however urgent and essential that action may be for the people of this country. Before 1857 the government had really speaking no economic policy; their sole attention was directed to the establishment of their political authority in this country. From the second half of the 19th century, England adopted *laissez faire;* a faithful imitation of that policy was made in this country, even though the economic situations between these two countries were entirely different. England had completed the first round of industrial revolution and she needed an unhampered development of capitalistic enterprise on the basis of private initiative, cheap supply of raw materials, and free, extensive, prosperous markets for her industrial products. Indian condition was entirely different. Industrialism in this country, is so far as it existed, was already suffering because of political turmoil and the disappearance of the support of the ruling classes. What she needed at this time was, as in Germany, U. S. A., and Japan, a highly protectionist

policy. To adopt a *laissez faire* policy at such a time was to place the disorganised industrialism to the full blast of competition from the highly developed industrialism of Britain, against which all other countries had protected themselves. The policy was dictated not by the necessity of this country nor by rights of the people but by the might of a dominating country. The disorganised industrialism of this country could not stand the strain; it decayed, leaving India dependent on agricultural occupations and thereby disturbing her age-long economic balance.

Some people have failed to appreciate the Indian standpoint. Clow writes in his *The State and Industry*, "From the economic standpoint it was urged that the industrialisation of India was undesirable and that the diversion of capital from agriculture to industry would be unprofitable to the country. Others regarded industrialisation as an evil mainly because of the social changes it brought in its train. "But as he later recognises himself, this was not the bulk of the Indian educated opinion. This sort of opposition has come even in countries like England from some of her best thinkers, like Carlyle and Ruskin. But that should not be taken as a sufficient ground for not introducing industrialism. What is required is therefore a planned development so that the evils connected with present-day industrialism may be avoided to a great extent. However, upto the coming of the first great war, the Government had no such thing as any industrial and commercial policy, although it was pointed out by the Famine Commission of 1880 that "at the root of much of the poverty of the people of India, and of the risks to which they are exposed in seasons of scarcity, lies the unfortunate circumstance that agriculture forms almost the sole occupation of the masses of the population." As seen in the previous volume, the financial requirements of the Government induced them to impose duties on imports; but they were never protective, in view of low rate and uncertain period of continuity, their duration depending on the revenue requirements of the Government. The duties were fixed at a low level so that import of British manufactures may not be hampered and "owing largely to the agitation

in Lancashire, in 1882, an almost completely free trade tariff was introduced. . . . Most export duties were repealed and the remaining import duties were counter balanced by excise duties on the articles concerned." (Anstey). Before the first great war, in one or two provinces, the provincial administration had evinced interest in to economic development of their respective regions but they had to withdraw because of the disapproval of the Secretary of State. In his despatch Lord Morley wrote, "I have examined the account which the Madras Government have given of the attempt to create new industries in the province. The results represent considerable labour and ingenuity but they are not of a character to remove my doubts as to the utility of state effort in this direction. . . . The policy which I am prepared to sanction is that state funds may be expended upon familiarising the people with such improvements in the methods of production as modern science and the practice of European countries can suggest; further than this, the state should not go and it must be left to private enterprise to demonstrate that these improvements can be adopted with commercial advantage." This despatch threw cold water on Government enterprise. In the words of Clow, "These orders resulted in the abolition of the Department of Industries as a separate department in Madras. The tanning factory had been transferred to private ownership. . . . and a weaving factory was closed. . . . In the United Provinces, they resulted in the closing of the cotton-seed oil factory, and there was for a time, a distinct check to official activities in similar directions elsewhere."

The Indian educated opinion demanded two things; first, development of modern industries, and second, as an aid to the first, a definite policy on the part of the Government. The initiative was not lacking; what was demanded was that the Government should define its policy. The demand was nothing new; such policy has been followed by all countries including Britain and is being followed even to this day by all countries. But political subordination of this country made it possible for the Government to show utter disregard to the Indian opinion or the Indian require-

ments. The first great war for the first time brought home to the Government the necessity of having industries and the Industrial Commission was appointed "to examine and report upon the possibilities of further industrial development in India and to submit its recommendations with special reference to "a number of items. The necessity of industrial development, which was felt by the Government during the war, however, receded to the background as soon as the war was over. Most of the recommendations of the Commission were not given any effect. And at long last when England had definitely become protectionist from 1921 and taken to the formula of Imperial Preference, the Government in this country, with the help of the Fiscal Commission, devised the most fascinating but fantastic formula of what is known as Discriminating Protection and which was applauded to the skies as being the most scientific form of protection ever devised, though other countries were doing well with a less scientific type. The machinery suggested for, and provided by, the Government, *viz.*, the Tariff Board, was not only too expensive but at the same time too dilatory and then many of their recommendations were scarcely given any effect and that too according to the choice of the Government. However, this much must be said that since the publication of the Report of the Fiscal Commission, the commercial policy of the Government, for the first time, underwent modification, when the revenue tariff was supplemented by a protective tariff, though the importance of the former still continued. The tariff was however protective in so far as the case of a number of industries was considered and protection was given to them for a certain number of years as the Government had thought fit in each case. The working of the protective tariff in India and its consequences to the industry and burden on consumers have been considered so many times by other writers that they need no repetition here. In the 'thirties the policy of the Government underwent further modification when India became a party to the Imperial Preference. Although other parts of the British Empire had accorded a preferential treatment to the British products long ago, the Government of India had been

opposed to it; but since the depression, they had changed their policy. One however fails to understand the reason for such a step when it is found that economic considerations which at one time made the Government opposed to it did not change in any way in its favour; on the contrary, since the first great war, India's trade, particularly import trade, had changed its direction to non-Empire countries. To some extent the same was also true of exports. At such a time instead of encouraging these trades by bilateral agreements, the Government forced it to imperial channels and thereby disturbed the natural flow. A number of trade agreements were entered into with Britain and also with Japan; but the Indian opinion has never been satisfied at the terms of these agreements. Since the commencement of the second world war, it was hoped that India being the centre of the sources of supply at least in the Eastern theatre, she would get a chance of developing her economy as has been done by countries like Canada, and Australia but now that the war is over, any effort at stock-taking indicates only a deficit account, there being no positive addition to our existing economic structure, but most of the industries being heavily depreciated owing to the excessive working during the war period. The publication of a few plans during the war created an atmosphere of optimism; but many of these plans have by this time disappeared in the air.

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With the improvement in India's constitutional position, the case for state intervention has received added importance. The state in India is no longer an alien, unconscious state and from this standpoint there is nothing to say against nationalisation as such provided it expedites the pace of economic development. The commissions and committees appointed during the last two years have also favoured a considerable amount of state intervention. Thus the Advisory Planning Board appointed by the Government in October, 1946, was of opinion that central planning is considered desirable for the conservation and better utilisation of resources, elimination of wasteful competition and

for avoiding unbalanced economic development. The Board therefore suggested that nearly all the important basic industries should be planned from the centre. Defence industries, coal, mineral oils, iron and steel, railway, motor, air and river transport and all industries for which private capital is not forthcoming should be nationalised.

On this issue, the Economic Programme Committee of the A. I. C. C. has given the following opinion:

"New undertakings in defence, key and public utility industries should be started under the public ownership. New undertakings which are in the nature of monopolies or in view of their scale of operations serve the country as a whole or cover more than one Province should be run on the basis of public ownership. This is subject to the limit of the state's resources and capacity at the time and the need of the nation to enlarge production and speed up development.

"In respect of existing undertakings the process of transfer from private to public ownership should commence after a period of five years. In special cases, a competent body may, after proper examination, decide on an earlier transfer. The first five years should be treated as a period for preparation, during which arrangements should be made to take over and run these undertakings efficiently. Particular attention should be given to the following matters: (i) creation of an economic civil service which will furnish industry with executives of different grades, (ii) training the requisite industrial cadre, (iii) technical training and general education of the workers, (iv) organisation of research and information, (v) control of investment and scarce or strategic resources, and (vi) intensive and detailed economic surveys.

"The progress of transition to public ownership should be controlled so as to avoid the dislocation of the economic life of the country, fall in production, uneconomic acquisition of inflated assets and diversion of valuable resources from more urgent to less urgent uses.

"Industries producing articles of food and clothing and other consumer goods should constitute the decentralised

sector of Indian economy and should, as far as possible, be developed and run on a co-operative basis."

In its announcement of the industrial policy the Government has placed the industries into three categories, *viz.*, those which would be completely a state monopoly *e.g.*, railways, posts and telegraphs, certain industries relating to defence and atomic energy; those whose future development would be controlled and owned by the state *e.g.*, coal, iron and steel, aircraft manufacture, ship building, manufacture of telephones and mineral oils; and industries left to private initiative. It is however made clear that the existing units in the second category would not be taken over by Government immediately, at least for next 10 years. But five years or ten years constitute too short a period and in these days when a thorough reorganisation and re-equipment of our existing units are essential and when reorganisation would take a long period, particularly in view of the non-availability of many materials, the prospect of nationalisation after five or ten years would hamper private initiative and would thus be detrimental to efficiency. This argument seems to be a bit out of place when in the early part of this chapter we have seen how state intervention has wrought wonders in other countries. But the same we cannot say with regard to India at the present stage and what to speak of nationalisation, even intervention must be cautious and well-thought of. There ought to be no inherent antagonism between the interests of the state and those of the public; and on theoretical grounds the case for state intervention is still great. But in view of our existing administrative weaknesses, theoretical reasons for state intervention or nationalisation evaporate. These weaknesses often enter the borderland of corruption. This is an open secret and cannot be eradicated because of the personal popularity of a few leaders. Private capitalism has surely the monopolist's weakness of exploiting the consumers, but if there is threat of competition, internal or foreign, private capitalism would be doing a lot to maintain efficiency. True, under existing circumstances, state capitalism is more effective; but it is true provided all is well with the state. In this respect the words of Sir

Theodore Gregory ought to be instructive. To quote him, from his experiences in this country.

"The paramount problem is the establishment of what may be called impersonal standards of behaviour on the part of the authorities with whom the ultimate responsibility will rest. The pull of family, of friendship, of community, of party is immense. The ante-rooms of ministers and of leading civil servants are not in fact filled with purely disinterested individuals, only desirous of the public good. However scientific the plan, a considerable margin of debate exists, and the debate is not always conducted on lines which would be considered reputable in the common rooms of British universities. . . . One has to ask oneself: What are going to be the true incentives which will sustain the vast administrative, technical and industrial effort that will be required, not for a few months or a few years but for decades? One has to picture to oneself not some higher official in an air-conditioned room at headquarters, supplied with glittering car and secretaries and all the attractions of a modernised urban centre (including the due measure of adulation and 'write-up' in the local or even the world press) but the thousands of humbler folk in obscure provincial centres and villages, battling with local indifferences at best and local opposition at worst with the heat and the flies and the pressure 'to do something for some body' on telephonic instructions from some all-powerful person at the mysterious centre, and who are expected to produce the results."

The testimony is rather unpalatable but realistic and is a true diagnosis of the state in India as it exists at present. Besides, it seems that a gap is being rapidly created between the industrialist and the Government and the former cannot take the latter into confidence. In spite of all utterances by ministers that private enterprise will be encouraged, the speeches have been taken after a considerable amount of discount. Thus the Minister of Industries and Supplies said once, "Any improvement in the economic conditions of the country postulates an increase in national wealth. A mere redistribution of existing wealth would make no essential difference to the people and would

merely mean the distribution of poverty. A dynamic national policy must therefore be directed to a continuous increase in production by all possible means, side by side with measures to secure its equitable distribution. In the present state of the nation's economy, when the mass of the people are below subsistence level, the emphasis should be on the expansion of production, both agricultural and industrial, and in particular, on the production of capital equipment, of goods which satisfy the basic needs of the people and of commodities the export of which will increase earnings of foreign exchange." Even recently, the Minister for Industries and Supplies assured that "the policy of the Government is that the existing undertakings will not only remain with private enterprise for at least 10 years but that they will be assisted to increase their efficiency and expand their production. The question of their acquisition by the state will be a matter of review at the end of this period of 10 years in the light of the circumstances then prevailing. . . . Nationalisation as ordinarily understood means the complete exclusion of private enterprise from the nationalised field. On this definition, our policy, as announced, does not contemplate the nationalization of any industry except those which are already under Government direction and management, *viz.*, arms and ammunition, railways and the production and control of atomic energy. The state has, however, assumed primary responsibility for the development of new undertakings in six other industries, *viz.*, coal, iron and steel, aircraft manufacture, ship building, manufacture of telephone, telegraph and wireless apparatus and mineral oils. . . . No monopoly by the state is intended and private enterprise is free and welcome to play its due role in this sphere. The state may of course find it necessary to undertake the establishment of new industries which are important from the national standpoint or where private enterprise is slow to come into the field. State enterprises of this character should not create any prejudice or hostility in the mind of anyone interested in the progressive development of the country." Even the Prime Minister assured the existing industries in following words: "If the state's resources

were applied for starting new industries without interfering with the existing apparatus, except where absolutely necessary, what the state did would be a constructive addition to production rather than merely a change over."

Inspite of these assuring words which we have quoted more extensively than was warranted, production is not only not increasing but decreasing in all sectors and the investor's hesitancy is widespread. So far we have seen a lot of blaming and counter-blaming. Labour is often blamed for this. The Employers' Delegation to the U. P. Government Enquiry Committee pointed out a few months back that efficiency in textile mills had shrunk in recent months to 70 p.c. of the normal, the contributing causes being the system of giving dearness allowance on mere attendance, having nothing to do with production (57 p.c. of wages being earned for mere attendance and 43 p.c. by actual labour) and "fatiguing" consequent upon reduction in working hours which have attracted them to weaving on cottage industry basis. According to the Waterfield Committee on Cotton Textile Industry in Bombay City and Suburbs, during the year ended July 1947, the percentage of absenteeism varied between 12.83 and 18.15 while its range was only between 7.17 and 9.13 in corresponding period in 1937-38. No body would object to the amelioration of working class conditions, but not surely at the cost of efficiency. Besides, strikes have increased since 1945, being 820 in that year, 1629 in 1946 and 1703 in 1947. In the quarter following industrial truce there were 454 strikes involving a loss of 3 million man-hours, as compared to 389 strikes leading to a loss of 1.8 million man-hours in the quarter preceding the truce. But even more important factor is the strike by capital. It is well-known that the $2\frac{3}{4}$ p.c. 1962 Government loan for Rs. 40 crores floated in October 1947 failed to bring any cash subscription and the outstanding balance of Rs. 30 crores of $2\frac{3}{4}$ p.c. 1948-52 loan due for repayment on July 15, had to be paid in cash. The promised Freedom Loan is yet to come. The political situation in the country, the industrial policy of the Government, socialistic speeches by ministers on individual responsibility, defective import policy etc., have all added

to the investors' hesitancy and production in free India is declining at a rate almost unprecedented.

The Government's policy of controlled distribution of products will however have the greatest responsibility for the contraction in production. For, apart from the factors connected with labour, heavy depreciation of existing equipments under wartime pressure, etc., the accumulation of past stocks in various industries are hampering production all the more and till these are all cleared and money blocked in them released, further production cannot take place. These accumulated stocks have not only blocked the capital but have resulted in decline in employment and contraction of investment, which in its turn has resulted in contraction of purchasing power due to gradual increase in unemployment and has consequently created a vicious circle. Thus Mr. J. R. D. Tata said at the Annual General Meeting on 24th August, 1948, "We have at this moment a stock of 80000 tons of finished steel and 63000 tons of pig iron which is congesting our works and hampering production. Such large tonnages of finished material also represent an enormous amount of capital unnecessarily locked up...." The Cement Marketing Board advertises everyday that they have cement but no wagons are available. The dilemma is that we have sufficient cement and iron and we need more houses for the civilian population and more employment in building industry and yet none is forthcoming. The sugar industry is carrying over a stock of 2 lakh tons of sugar. Referring to this Lala Karamchand Thapar, President, Indian Sugar Mills Association said, "This is the position when these factories are having only 50 to 60 p.c. of their normal crush. The members will therefore appreciate that unless immediate steps are taken to reduce the carry over, we will have only doubled this figure by the end of the next crushing season. And in the third year we shall have a stock of about six lakh tons which together with the production in other provinces in that season would be quite enough to feed the country for one year. Thus the factories in U. P. and Bihar will have to remain completely closed for one season."

We have given so many quotations just to drive home

the exact nature of the problem. It is true that production is not increasing and investor is hesitant, a fact which is to be deplored, particularly so when we find that it is these very people who put in about Rs. 400 crores for financing a war in which India's interest was not involved. The hesitancy is partly due to the fact that the administrators do not know their mind and, worse still, the industrialists are not sure as to the future and partly it is due to the fact that the old stocks are not yet disposed of, and till that is done no sector of the economy can advance. And as already said, this is a vicious circle. In a haphazardly restricted economy money-making exists, but business of all kinds evaporate. If the state has the necessary equipment and efficiency, state enterprise is more effective under existing stage; but in its absence, the private sector should be left to take account of itself and the existing stock being what it is, competition would bring the price down and pave the way for further investment. The policy of the state should be one of assistance, and not interference or outright taking over.

What is needed for the Indian economy at present is an expansionist economic programme. Any move that hampers production is to be deprecated. In this respect the policy of the Government has certain weaknesses which we have already noted. It is true that the Government is faced with a two-fold problem of inflation and declining production. But any attempt at curbing the purchasing power of the masses would aggravate the problem. Rather production is to be stimulated and employment increased so that the volume of economic activity may adjust itself to monetary expansion. A right move by the Government would increase the necessary psychological atmosphere which is so very essential for converting the savings, both large and small, into investment. Time is an important factor to-day and for rapid economic expansion a plan and a programme are essential along with the necessary organisation, staff, equipment and finances. Besides, there should be precision in data, discipline in action, constant encouragement and drive and close adherence to the targets fixed. In all these respects there is much gap to be filled

up. A mere talk of nationalisation, when nationalisation is not a practicable proposition, is simply causing harm. Rather the Government should give full attention to above matters in close co-operation with the industries. If this is done, if administrative corruption is checked ruthlessly and efficiency increases, and if the Government is able to make its plan and programme effective, if everyone of the wants and deficiencies of the economic life of this country receives proper attention in accordance to its urgency and importance, no force, however strong, can stand in the way of our progress and our "growth would be automatic."

APPENDIX ON RECENT DEVELOPMENTS IN INDIA'S FOREIGN TRADE.

OUR TRADE IN RECENT YEARS:

The features that have characterised trade in recent years are the stress and strain of transition from war to peace, declining production and rising prices, acute balance of payments difficulties and evergrowing scarcity of dollars. These being the world factors make no exception so far as our economy is concerned. With the exception of the hard currency countries which are the only surplus producing areas at present, in almost all countries the value of imports has tended to increase while that of exports to decrease. Over and above these, India had civil commotions of the worst sort, political uncertainty, widespread discontent and other complications. The only important favourable factor on our side is the large accumulation of sterling balances; but these are not totally devoid of complications for our economy. These complications have all centred round the question of repayment of sterling balances and will be discussed separately. Our imports have increased from Rs. 152 crores worth of goods in 1938-39 to Rs. 240 crores in 1945-46, and Rs. 287 crores in 1946-47. But the composition of our import trade has changed little, manufactured goods being about 60 p.c. of the total, raw materials and semi-manufactured goods 20 p.c. and food, drink and tobacco about 15 p.c. It is true that the import value of machinery has increased; but when we consider the present high prices of machinery it is clear that they will hardly be enough for effecting replacements, what to speak of the establishment of new units of production or altogether new industries. Our exports were valued at Rs. 296 crores in 1946-47 as against Rs. 163 crores in 1938-39. This was partly due to the wartime demand for Indian products in outside markets and partly due to the elimination of competition in the Mid and Far Eastern markets from the belligerent countries. In conse-

quence, the share of exports of manufactured articles increased from 29 p.c. of total exports in 1938-39 to 45 p.c. in 1945-46 and 47 p.c. in 1946-47. The share of raw materials and semi-manufactured articles in total exports however declined from 44 p.c. in 1938-39 to 31 p.c. in 1946-47. This was due to the fact that as a result of the grow-more-food campaign the acreage under cash crops diminished. Inspite of these changes in the composition of our export, the fact remains that the predominant position is still held by about half a dozen commodities, *viz.*, raw jute and jute manufactures, tea, raw cotton, hides and skins and oil seeds. These constitute about 60 p.c. of our total exports. Jute manufactures constituted the largest single item, securing foreign exchange worth Rs. 70 crores in 1946-47. During the years of war the value of total foreign sea-borne trade of India nearly doubled, being Rs. 321 crores in 1938-39 and Rs. 604 crores in 1946-47. The direction of our trade has changed as follows:—

(Percentage share of important countries)

Imports.			Exports.		
Country	1938-39	1945-46.	Country	1938-39	1945-46
U. K.	30·5	25·4	U. K.	34·1	28·3
U. S. A.	6·4	27·9	U. S. A.	8·5	25·8
Middle East (Except Egypt)	3·2	22·0	Middle East (Except Egypt)	2·4	5·8
Egypt	—	6·2			
Australia	1·6	2·9	Australia	1·8	4·5
Canada	0·6	2·5	Canada	1·3	2·9
Kenya & Zanzibar	3·4	4·1	Ceylon	3·1	7·0
Ceylon	0·8	1·6	Burma	6·2	—
Burma	16·0	0·1	Japan	9·0	—
Japan	10·1	—	France, Germany, Belgium, Netherlands & Italy	16·1	—
Germany	8·5	—			

It will be seen that the Empire countries have diminished in importance in our overseas trade, while France, Germany, Japan, Belgium, Netherlands and Italy have been removed from the picture. The gap thus created has been filled in by U. S. A., Canada, Australia, Middle East, North Africa and Ceylon. Of these countries, U. K. and U. S. A. supply machinery, iron and steel, instruments and apparatus and drugs and medicines; Motor vehicles are supplied by U. K., U. S. A. and Canada; mineral oils by U. S. A.; Middle East and Burma; longstaple cotton by Egypt and North Africa; paper and paste board by Canada, U. K., U. S. A., and Sweden and food grains by U. S. A., Canada, Argentine, Burma and Australia. Before the war Germany and Japan supplied a substantial share of machinery, iron and steel, chemicals and manufactured articles, but have disappeared during the war. Japan however is re-entering the Indian market. So far as India's exports are concerned, they have an assured market in all parts of the world mainly because of the worldwide scarcity and monopolistic position occupied by India in those respects. India has also acquired new markets, in particular for her cotton piece goods and leather manufactures, particularly in Australia, Middle East and North Africa, and has thus occupied the place previously covered by Japan.

Immediately after the war, the Government liberalised the import control policy partly for satisfying the pent-up demand for all kinds of goods and partly for fighting inflation. This resulted in an inflow of many unwanted luxury goods, thereby reducing our foreign exchange resources. Hence from the middle of 1947 the import control policy was drastically revised with a view to conserving the foreign exchange resources for the most beneficial uses, *e.g.*, purchase of foodgrains, capital goods, industrial raw materials and other essential consumer goods. Restrictions were imposed on remittances to sterling area in order to facilitate the U. K. Government to meet its obligations to the sterling area countries when sterling became multilaterally convertible on the 15th of July 1947. The conclusion of the interim sterling balances agreement enabled the Government to lift embargo on remittances to sterling area coun-

tries and to issue licences for the latter half of 1947, without discriminating between dollar and non-dollar areas of supply. From January 1948, however, distinction was made between dollar and non-dollar areas. This was due to the ever-growing scarcity of dollar. Under the control scheme all imports have been divided into three categories, *viz.*, those which will be licenced freely from dollar areas, those which will be licenced freely from non-dollar areas and those which will be prohibited. Goods which did not come within these lists would be subject to overall monetary ceilings. Later on Government announced that they would be more liberal in the issue of licences for imports of consumers goods from non-dollar areas. The aim of the export policy of the Government has been the conservation of raw materials to be exchanged for foodgrains and other essential commodities. In 1947 however a large number of non-essential commodities were removed from control.

The partition of India has deprived this country of two very important items which were responsible for earning the maximum foreign exchange resources, *viz.*, jute and cotton. In 1946-47, 16 lakh bales of raw jute and 46 lakh bales of manufactured jute, together valued at Rs. 89 crores and forming 29 p.c. of total exports were exported from undivided India. It is interesting to note in this connection that although all the jute mills belong to India, yet 75 p.c. of total production of raw jute falls to the share of Eastern Pakistan. Of the total production of 55 lakh bales in 1946-47, India produced only 15 lakh bales, while the total consumption of raw jute in Indian mills comes to about 60 lakh bales. Apart from the fact that partition has deprived the country of one of its most important foreign exchange earners, it has also created a great problem for the industry. For the time being, of course, the stock in the hands of the mills has eased the position; but this cannot continue for long and hence already a move has been started to make West Bengal as much self-supporting as regards the supply of jute as it is feasible.

Apart from jute other export items that have been affected by partition are raw cotton, raw wool and raw hides and skins. Pakistan's share of total cotton crop amounts to

2/5ths though only 14 out of 451 mills are situated there, the rest being located in India. About 3/5th of pre-partition longstaple cotton is also grown in Pakistan, though the whole of this is normally consumed by Indian mills. The total loss to India's export trade as a result of partition was estimated by Mr. C. H. Bhabha, former Commerce Member, to be near about Rs. 25 crores.

Under existing conditions India stands in need of a tremendous export drive. India's import requirements of food grains, industrial equipments, etc., is tremendous, whereas the sterling releases, as will be seen later, are too inadequate. The partition of the country has made the situation worse still. Hence it is imperative that India should launch on an export drive at an early date. This can be done in various ways. In the first place, it is essential to increase the supply of export commodities which are available at present to their utmost possible extent and trade controls should be so devised that their outflow is promoted. Secondly, during the second great war we have captured a number of markets in Middle East, North Africa, Australia and South-East Asia. It is essential that these markets should be consolidated and developed by quality control and standardisation of export articles, planned advertising, propaganda and publicity, and, above all, a high standard of honesty and integrity. Thirdly, every attempt should be made to increase exports to dollar areas. Besides the export of jute, hides and skins, lac, etc., India has recently found a market in U. S. A. for tea, cashewnuts, mica and sandalwood. It is essential to try to popularise other Indian products in U. S. A., *e.g.*, Indian artistic goods and certain types of specifically Indian goods, *e.g.*, artistic woodwork, ivory carvings, brass artware, enamelware, Benares brocades, artistic bangles, embroidery work in gold, silver, silk, artistic jewellery, products of Kashmir crafts, highpriced Indian saris, coir and coir products, lac and lac products, preserved Indian fruits, sweets, etc. If proper publicity is made, these products are sure to command wide markets in the dollar areas. Fourthly, entrepot trade most often brings in large foreign exchanges. Before the war India had a flourishing entrepot trade. India can develop the same with

Central Asian countries by land routes and with Africa and Mid-East by sea route. Fifthly, India has enormous possibilities in her tourist trade. The country being vast and full of diversities, natural sceneries, places of pilgrimage, health resort, places of historical importance, etc., she can earn a lot of foreign exchange from this trade provided adequate arrangements inside and publicity outside are made for attracting people. For the purpose it is essential to establish a semi-state organisation like the Holiday and Tourist Board in U. K. Finally, export drive is closely connected with production drive which on the one hand provides us with commodities for export and on the other reduces our dependence on imports which in fact create an adverse balance of payments.

Our Sterling Resources

India has always held sterling in the United Kingdom as part of her currency reserve. The pattern of our trade and our balance of payment position necessitated in the past the maintenance of a certain amount of our resources in sterling. Under the Reserve Bank of India Act, 1934, not less than 2/5th of total assets of the Bank should consist of gold, bullion and sterling securities. Under this provision even before the war, the Reserve Bank always held sterling balances of varying amounts. The amount that was held before the war was about £48 million (Rs. 64 crores). Sterling balances of India at the time of the commencement of our London negotiations were about £1160 million (Rs. 1547 crores). Large accumulations of sterling balances occurred during the war as a result of various financial and commercial transactions. The principal sources of accumulation were the reimbursements in sterling to Government of India by British Government for the purchase of stores and other materials from India and certain other expenditure incurred by us on account of British and other allied Governments. A section of the Reserve Bank Act which imposed on the bank the obligation to buy sterling to an unlimited extent was utilised for financing theese supplies. The payments in sterling which were made by the British Government for

meeting their share of wartime expenditure were handed over by the Government of India to the Reserve Bank in exchange for rupees. Sterling thus became the property of the Reserve Bank and has been invested or deposited with the Bank of England. Thus our sterling balances do not represent an inter-Governmental war debt in any sense, as it has been made to represent in some section of the British press. They are the aggregate sums received in final settlement of a number of transactions in accordance with agreed financial and other arrangements for the prosecution of the war and sharing its burdens. These sterling balances are held by the Reserve Bank partly in the Issue Department as a currency reserve and partly in the Banking Department as assets against liabilities. Hence the question of scaling down sterling balances does not stand on any ground, moral or technical.

The position in the earlier part of 1947 was that India was free to utilise her sterling balances in any manner she pleased for expenditure in, or remittance to, sterling area subject only to the limitation of availability of goods in that area. She was also entitled to convert the balances into dollars or any other currency at her own discretion provided that she was satisfied that the expenditure involved was essential in the interests of the economy of the country. This position could not continue for long on account of the provisions of the financial agreement between U. K. and U. S. A. Under that agreement the U. K. was bound to make every endeavour to enter into arrangements with the countries holding sterling balances with a view to providing multilateral convertibility for current earnings of sterling.

It was mainly in pursuance of the Anglo-American Loan Agreement and the necessity of arranging for an orderly liquidation of the balances that discussions between the British Government and various sterling area countries became necessary in 1947. The discussions which were held in January and February 1947 in New Delhi between official delegations of two Governments were not brought to a conclusion but an interim settlement was effected in August 1947 dealing only with the question of foreign exchange necessary for India for a period of six months. The agree-

ment was renewed for a further period of six months, the main differences being the limitation on the extent of convertibility of our holdings in our No. 1 account, consequent on the suspension of convertibility provided for in the Anglo-American Loan Agreement. For the first half of 1948, the convertible portion of sterling released was limited to £10 millions (Rs. 13 crores). Since the January agreement was only for a period of six months and terminated in June 1948, fresh negotiations were started. Apart from the question of the release of the balances for any stated period there were certain other matters which had to be settled. These were:

(a) To settle payment for U. K. stores and installations which undivided Government of India took over in April 1947;

(b) To arrive at a pension capitalisation scheme on the basis of purchase of an annuity; and

(c) To arrange for a release of sterling initially for a period of three years including multilateral convertibility for at least a part of the release. In 1947 the undivided Government of India took over from His Majesty's Government all the stores and installations which they had left in India at the termination of the war. The price to be paid for these stores and installations were left over for settlement at a later date. The settlement of this question became important and urgent in view of the establishment of a separate currency for Pakistan and the need for a final separation of sterling balances between two dominions.

The manner in which sterling assets of the Reserve Bank have been divided between India and Pakistan have been provided for in the Pakistan (Monetary System Reserve Bank) Order 1947 and subsequent amendments. Under Para 4(3) Part IV of the Order, Pakistan's share of sterling assets will be the ratio of the note circulation after adjusting any expansion against Pakistan securities in that Dominion. Subsequently it has been agreed that India should sell to Pakistan, for Indian Rupees, additional blocked sterling upto an agreed limit as and when demand is made until December 31, 1967. The formula for working out this agreed limit will be as follows:—

(a) The total of the sterling assets in both the banking and issue departments on September 30, 1948, will be taken together.

(b) From this total will be deducted the lump sum payable to British Government at the time of the final settlement of the sterling balances on account of the capitalisation of pensionary liability, for the military stores and fixed assets as on April 1, 1947, in India, etc.

(c) Out of the remaining balance a sum in sterling which, taken together with the gold held in the Issue Department, will be equal to 70 p.c. of the total liabilities of that department as on September 30, 1948, will be allocated in the manner prescribed in Para 4(3) of Part IV of the Pakistan (Monetary System and Reserve Bank) Order, 1947.

(d) Of the remainder, 17½ p.c. will be allocated to Pakistan.

(e) The diference between the total of what will fall to the share of Pakistan under (c) and (d) and what Pakistan would obtain under Para 4(3) of Part IV of the Order is the amount of the additional sterling to be made available to Pakistan.

(f) In regard to the amount of this additional sterling, India agrees to sell to Pakistan sterling for Indian rupee on demand being made by Pakistan up to December, 31, 1967.

Turning next to the latest agreement on sterling balances, it has been agreed that during the period of three years from July 1, 1948, British Government will release a sum of £80 million in addition to which India will carry forward the unspent balance under the main operative account of £80 million out of previous releases. The total available foreign exchange for this period will therefore be £160 million (Rs. 213 crores). This is over and above India's current earnings by exports which amount to Rs. 500 crores. Other terms of the agreement are as follows:—

(a) H. M. G. will be paid £100 million (Rs. 133 crores) in full and final settlement for all British military stores and installations taken over by India on April 1, 1947. The book value of these assets was of the order of £375 million (Rs. 400 crores).

(b) To meet the liability for pensions of European officers, India will pay the U. K. a sum of £147½ million (Rs. 197 crores) and will purchase from them a tapering annuity starting with £63,00,000 this year and gradually falling to nothing in 60 years. India's annual liability on this account comes to Rs. 6¼ million (Rs. 8 crores). It has also been agreed to purchase a similar annuity with regard to Provincial Pensions (Rs. 1¼ crores), the payment on this account being to the value of £20½ million (Rs. 27 crores).

(c) A part of the releases will be multilaterally convertible and for the present it has been agreed that in the first year a sum of £15 million (Rs. 20 crores) will be made available for conversion into any currency. Requirements in the remaining two years will be reviewed later and the amount of the multilaterally convertible releases settled in due course. Any deficit in hard currencies this year will have to be covered by borrowing from International Monetary Fund.

The unspent portion of the previous release of our sterling balances has come in for a good deal of criticism. The following reasons were given from the Government side for this failure:—

"(1) In estimating the quantum of exchange available from exports and in the preparation of import licencing programmes we had no previous experience to guide us.

(2) Owing to the system of six-monthly releases from sterling balances, it was not possible to place for long periods and the planning of export and import policies was therefore made with a considerable degree of caution.

(3) The actual proceeds from exports exceeded the estimated amount, the excess being partly due to the country being able to export larger quantities than expected and partly as a result of better prices being received for exports.

(4) With a view to making best possible use of our limited sterling resources greater emphasis was placed on drawing up import licensing programme, on the issue of licences for capital goods and industrial raw materials, and as a result import of consumer goods other than essential was restricted. Actual imports however failed to reach anticipated level as capital goods and industrial raw materials

were not available in adequate quantities from supplying countries. Deliveries were also often protracted.

(5) Imports of capital goods did not also come up to expectation due to the failure to utilise licences."

The last item of explanation conflicts with the grievances of the industrialists who hold that they could not fully utilise the released sterling balances even upto the extent to which it was feasible under existing conditions due to the inefficiency of the Government Department. As Mr. A. D. Shroff pointed out, "It is a matter of common knowledge, particularly among the business and industrial community in India that decisions on applications for import licences have been unduly delayed by the Commerce Department with the result that the last portion of the sterling released in the previous period could not be utilised before 30th June."

Even the latest Sterling Pact has come in for a good deal of criticism, many arguments of the critics being very sound. Some people have argued that the ghost of scaling down has not been laid and that the delegation should have obtained a written undertaking from British Government to this effect. It has also been pointed out that the price paid for British military installations and stores had been too high, that India need not have been in a hurry to capitalise pensions and pay a lump sum out of the hard-earned sterling balances, that the interest on these balances which works out to only 0.78 p.c. per annum has been too low, that no suitable provision has been made to protect the sterling balances against any possible devaluation of sterling and that the sterling releases for the next three years are quite inadequate. But the most cogent argument is that the agreement should have been commercial and not financial. For, a mere financial agreement leads us nowhere unless Britain is able to meet India's demand for capital goods. The delegation should have insisted on top priority for India in the matter of supply of these goods. It should have demanded the payment of a certain percentage of these balances in the form of gold or convertible currency, certain percentage in the form of capital goods and a certain percentage in the form of a loan from the U. S. A. with U. K.

standing as guarantee. And if U. K. was not agreeable to these terms it would have been even better to acquire the British commercial interests in India rather than to keep the matter uncertain. It is true that the hard-earned sterling balances should be utilised for the industrial development of this country so that the sacrifice we have undergone in accumulating them would be more than counterbalanced by gains to future generations. But if Britain is not in a position to supply us our necessary capital goods, she can even place us in a position whereby the purchases may be made from U. S. A. And as a last resort it is wise to acquire British assets in India and thereby put an end to the balance of payment difficulties which come from this end. It is no use dragging the matter till an uncertain future period, particularly so when time is an important factor for us.

Geneva Tariff Agreement

A few words need be said regarding the Geneva Tariff Agreement which took place in December, 1947, when the United Nations met at Geneva to prepare a draft charter on trade and employment and to negotiate tariff agreements among the different nations. The charter has adopted very broad objectives. Thus it is stated that the signatories should seek, individually and collectively, full employment and a steadily growing volume of real income and effective demand within each economy. It is also the objective of the charter to induce the nations to reduce tariffs and eliminate discriminatory treatment in international trade. Regarding backward economies, the signatory powers should try "to foster and assist industrial and general economic development, particularly of those countries which are still in the early stages of industrial development and to encourage international flow of capital for productive investment." A necessary condition for the expansion of international trade is the "avoidance of unemployment or underemployment through the achievement and maintenance in each country of useful employment opportunities for those able and willing to work and of a large and steadily growing volume of production and effective demand for goods and services." These

objectives are to be attained by individualistic action on the part of each state as also by international co-operation in such a way as "to avoid measures which would have the effect of creating balance-of-payments difficulties for other countries." Thus export surplus is not the means of correcting domestic disequilibrium. If however "a persistent maladjustment within a member's balance of payments is a major factor in a situation in which other members are involved in balance of payments difficulties,.........the member shall make its full contribution towards which appropriate action shall be taken by other members concerned, towards correcting the situation.

The question of economic development of backward economies is not neglected. "The members recognise that, with appropriate safeguards, including measures adequate to ensure that foreign investment is not used as a basis for interference in the internal affairs or national policies of members, international investment, both public and private, can be of great value in promoting economic development and consequent social progress. They recognise that such development would be facilitated if the members were to afford, for international investments acceptable to them, reasonable opportunities upon equitable terms to the national of other members and security for existing and future investment." The development of backward economy may however require certain amount of protection and governmental assistance. But then an unwise use of such measures would impose undue burdens on their own economies and unwarranted restrictions on international trade and might increase unnecessarily the difficulties of adjustment for the economies of other countries. In special circumstances, if "there should be an increase or threatened increase in the importations of the product or products concerned, including products which can be directly substituted therefor, so substantial as to jeopardise the plans of the applicant member for the establishment, development or reconstruction of the industry or industries concerned, and if no preventive measures consistent with this charter can be found which seem likely to prove effective, the applicant member may, after informing, and, when practicable, consulting with the organi-

sation, adopt such other measures as the situation may require, pending the determination by the organisation provided that such measures do not reduce imports below the level obtaining in the most recent representative period preceding the date on which the member's original notification was made." For this purpose the commercial policy of the advanced as also of the backward economies should be so framed as it may promote international co-operation and expand international trade. Under special circumstances, quantitative trade restrictions may be adopted to safeguard the balance-of-payment position or external financial position of any member-nation but they should never be discriminatory in character. Besides, for reducing wide fluctuations in the rates of exchange and keeping them within reasonable limits, International Trade Organisation should closely co-operate with the International Monetary Fund.

These tariff negotiations have been carried on between 23 nations. Parts I and III of the General Agreement secure general M. F. N. treatment and generalisation among the contracting parties of the tariff concessions embodied in the various schedules. The aim of Part II of the General Agreement is to maintain unimpaired the value of the benefits that follow from tariff negotiations by governing the conduct of the signatories in matters of international trade. The signatories to the protocol have to give effect to these three parts of the General Agreement. Of the signatories the commonwealth of Australia, the Kingdom of Belgium, Canada, French Republic, Grand Dauchy of Luxembourg, the kingdom of the Netherlands, U. K., and U. S. A. were committed to give effect provisionally on and after 1st January, 1948 to Parts I and III of General Agreement and Part II to the fullest extent not inconsistent with existing legislation. The other signatories may sign the Protocol upto 30th June 1948 and to give similar provisional effect upon the expiry of 30 days after such signature. The aims of these tariff negotiations were the substantial reduction of tariffs and other charges on exports and imports and the reduction or total elimination of preferences on a reciprocal and mutually advantageous basis. For practical reasons, the negotiations were conducted in a large

number of cases on a bilateral and selective product-by-product basis and the concessions took the form of (1) reductions in customs duties or other important charges, (2) reduction or elimination of preferential margins and (3) binding of existing tariffs against increase. In view of the multilateral character of the Agreement, however, the benefits of these negotiations will even independently of the existence of any M. F. N. treatment agreements be generalised in favour of all contracting parties. The broad effects of the Agreement are helpful for the expansion of international trade. For, under the Agreement the participating nations have agreed to free large areas of bilateral trade for multilateral agreements and to reduce tariffs; and the U. S. A. has agreed to help the nations by reducing her tariffs on a range of goods and so give them an opportunity to earn dollars. A concession has however been made in case of devastated countries of Europe which will still be able to enforce quantitative restrictions on imports from the U. S. A. until 1952. The Agreement has been described as a "very substantial contribution towards cutting the shackles hampering international trade."

The effects of these negotiations have been favourable on the British Commonwealth and its policy of imperial preference. Under the terms of the Agreement, Britain has agreed to eliminate imperial preference on 5 p.c. of their 1938 value and reduce preferences amounting to a further 25 p.c. Commonwealth countries have agreed to reduce duty rates on U. K. goods to the extent of £12 million of their 1938 value and to limit to the present rates duties on a further £15 million worth of goods. In terms of total values of preferences guaranteed to U. K. in 1938, 70 p.c. are unaffected, 5 p.c. are eliminated, 10 p.c. are reduced by 35 p.c. or more; and 15 p.c. are reduced by less than 35 p.c. The lowest percentage of unaffected preferences is that of Canada, with 44 p.c. of the total value of preferences in 1938. Unaffected percentages of other Commonwealth countries are as follows: South Africa 89 p.c., India and Pakistan 64 p.c., Australia 79 p.c., New Zealand 63 p.c. The U. K. stands to benefit in so far as some countries have granted concessions to the U. K. Thus, *e.g.*, concessions

obtained from China covered trade valued in 1938 at £2 millions. These concessions were obtained in case of wool, iron and steel plates, tyres, proprietory medicines, steam boilers, electric dynamos, embroidery, linen and textile machinery. The U. S. A. has agreed to halve duties on U. K. exports worth £2½ million in 1939 and to reduce by ⅓rd and ½ the duties on other exports worth between £10 and £11 million. On the other hand, Britain has agreed to bind duty-free entry or *advalorem* duties at current rates on goods, imports of which from the foreign countries concerned amounted to £63.1 millions in 1938 and to reduce rates on goods imports of which were valued at £30.4 million in 1938. Thus on the whole England is a gainer in so far as the system of imperial preference remains while the tariff concessions granted are not too many. She stands to gain from "binding" and reduction of duties agreed by foreign countries amounting to £29 millions in 1938 values. "The U. K. owing to its peculiar dependence on a flourishing export trade stands to gain as few other countries do from a revival of multilateral trading conditions and the outlawing of protective restrictions."

India has conducted negotiations with the following countries: Australia, New Zealand, Canada, Belgium, Netherlands, Luxemburg, Brazil, Chile, China, Czechoslovakia, Cuba, Syria, Lebanon, France, Norway and U. S. A. Owing to the suspension of commercial exchanges with South Africa for political reasons, no negotiations were opened with that country. Since the trade with U. K. is governed by the Indo-British Trade Agreement of 1939, it was considered unnecessary to open direct negotiations with the U. K. For similar reasons it was not found necessary to negotiate with Ceylon and Burma. No basis could be found for an agreement with Cuba, Syria and Lebanon. In tariff negotiations between India and other countries the main considerations were the backward state of Indian economy. Three main principles were kept in view in offering tariff concessions: *viz.*, (1) Concessions should be such as are demonstrably in the interests of the national economy or not injurious to national economy; (2) concessions should not relate to products which are protected, or in respect of

which a claim to protection is likely to be made during next three years; and (3) concessions should not result in an excessive loss of revenue. In statistical terms the benefits derived by India and Pakistan from these concessions will be as follows: The value of trade on the basis of 1944-45 figures, in commodities in which India has offered concessions is of the order of Rs. 31 crores. The value of export trade from India for which direct concessions have been obtained is estimated at Rs. 35 crores. In addition, the value of export trade from which India will benefit by indirect concessions will be at least of the order of Rs. 13 crores. The above negotiations have been ratified recently by the Indian Legislature.

It is difficult to say how far India will be able to derive benefit from above concessions. Much will depend on how far she is able to speed up production and stimulate export trade. For, without these she will continue to give concessions to others instead of receiving any from them in return. Since Indian economy is backward, a certain degree of protection may be enjoyed by her. Besides, export trade of India needs stimulus. This depends upon cheapness and qualitative superiority. In conclusion, it may be said that the I. T. O. is an important organisation and if it continues successfully it will represent an entirely new and significant experiment. In the words of Sir Raghaban Pillai, "If all important trading nations accept an international code of commercial conduct, conditions would be created in which world trade would flourish and prosper. That must necessarily redound to the advantage of every country interested in the expansion of its own trade. If India's programmes of economic expansion are executed, our relative position among the trading nations of the world, among countries of major importance, must be necessarily high."

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